



AR26

Highlights

	Year ended December 31	
	1979	1978
REVENUES (millions of dollars)	\$741.7	\$562.5
EARNINGS* (millions of dollars)	\$169.8	\$ 57.8
EARNINGS PER COMMON SHARE*	\$ 3.24	\$ 1.11

* Before extraordinary gains

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COVER PHOTOS

Front

Suncor became operator of this heavy oil project near Fort Kent, Alberta on January 1, 1980.

Back

Top: Suncor's oil sands plant, currently being expanded at a cost of \$185 million.

Bottom left: A Suncor exploration team drills near Medicine River, Alberta.

Bottom right: Ontario motorist stops at Sunoco for "a little more personal" service. Outlet is one of 950 in Ontario and Quebec.



"It was a year of exceptional change and progress. . . . The decks have now been cleared for major growth in Suncor operations over the next five years."
Ross A. Hennigar, President and Chief Executive Officer



A Suncor exploratory well in western Canada



Sunoco refined products were in demand during 1979.

Financial (dollars in millions except per share data)

	1979	1978
Revenues	\$741.7	\$562.5
Earnings before extraordinary gains	\$169.8	\$ 57.8
Funds from operations	\$252.4	\$126.0
Purchases of properties, plant and equipment	\$132.8	\$ 99.9
Shareholders' equity	\$797.6	\$627.5
Earnings as a percentage of average shareholders' equity	24.3%	10.2%
Earnings as a percentage of average capital employed	18.2%	7.6%
Earnings before extraordinary gains per common share	\$ 3.24	\$ 1.11
Funds from operations per common share	\$ 4.84	\$ 2.41
Dividends paid per preferred share (from August 22, 1979)	\$ 0.53	—

Operating

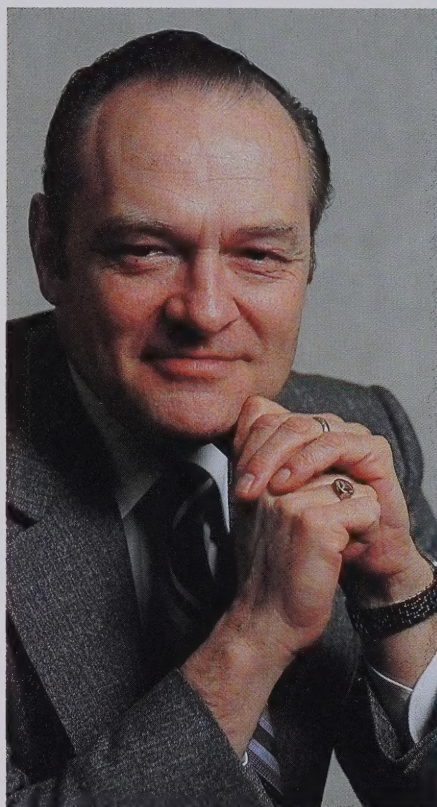
Gross production		
Conventional crude oil and natural gas liquids (a)	983	896
Synthetic crude oil (a)	2 465	2 596
Natural gas sales (b)	640	645
Crude oil processed at Suncor refinery (a)	4 454	4 038
Sales of refined products (a)	4 307	4 168
Gross proved reserves		
Conventional crude oil and natural gas liquids (b)	12	12
Synthetic crude oil (b)	65	67
Natural gas (billions of cubic metres)	14	13

(a) thousands of cubic metres

(b) millions of cubic metres



Whitefish H-63, drilled in 1979, was a major gas discovery on Suncor interests in the Arctic Islands area. A second well, G-63, also found gas.



Ross A. Hennigar, President
and Chief Executive Officer

It was a year of exceptional change and progress. Suncor was born from the amalgamation of Sun Oil and Great Canadian Oil Sands; the two companies were effectively organized into one and earnings from operations reached new highs. Further steps were taken to build the exploration and production base of the Company while downstream operations moved toward enhanced levels of efficiency.

The year in review

Apart from the amalgamation, the most important development during 1979 was the provision by the Canadian government of world prices for our oil sands production. This provision was the principal incentive for expansion of our oil sands plant. Alberta approved the expansion and agreed to a royalty rate for the additional production

at approximately the same average rate as that imposed on current production. Ottawa subsequently instituted world prices, effective April 4, 1979. Suncor obtains the difference between the domestic price and the average price for foreign crude oil landed in Montreal.

The agreement with the Canadian government states that it may reconsider its policy of providing world prices for Suncor's synthetic crude under certain circumstances pertaining to the national interest. The federal government has indicated that this policy is now under review. Depending upon the outcome, Suncor may have to revise its capital spending plans which are based in part on the world price agreement.

World prices contributed substantially to increased earnings but other factors were also important. Demand for refined products continued to strengthen and markets were firmer than they had been in years. Petrochemical sales were extraordinarily buoyant, particularly for orthoxylene. Downstream earnings were therefore well in excess of projections.

Capital spending reached new highs during the year. A total of \$133 million was expended, an increase of 33 per cent over 1978. The Exploration, Production and Resources Development Divisions accounted for \$64 million, up five per cent from the previous year.

Our exploration program once again focused on the western provinces. A total of 24 gross exploratory wells were drilled and completed in this area in 1979, yielding nine new discoveries. A further 131 gross development wells were completed and 109 722 gross hectares of exploration and development properties were acquired during the year. We are therefore in good shape to intensify our exploration and production development activities in 1980.

Suncor's commitment to non-conventional production was further increased in 1979. The most important step was to begin expan-

sion work at the oil sands plant. This \$185 million project is scheduled for completion by the end of 1981. Suncor also became the operator of the Fort Kent heavy oil pilot project on January 1, 1980. This is currently producing heavy oil using steam stimulation.

In the frontiers, an important gas discovery was made by the Arctic Islands Exploration Group at Whitefish. The discovery took place on holdings farmed out to the Group by Suncor in 1976. Follow-up drilling has begun and a second Whitefish well has also found gas. Off the coast of Labrador, promising results were obtained from a drilling program funded by the Labrador Group in which Suncor has a ten per cent interest. This program was cut short by poor weather.

Creating a new company

Much of our senior management time in 1979 was directed to the process of amalgamation and reorganization. Major changes were made without any disruption of operations. The result is a much stronger and better balanced vehicle for finding and producing new energy supplies in the future.

A mission statement for the new Company was drawn up and approved by the Board, concentrating Suncor's work along three main lines:

- An aggressive investment posture in both conventional and non-conventional oil and gas exploration, development and production. We intend to make a sizeable contribution to Canadian self-sufficiency in petroleum.
- A commitment to the manufacture and the marketing of high quality petroleum and petrochemical products.

- A reputation for competent, candid and socially responsible management.

To accomplish this mission, the new Company was divided into two operating groups. The Resources Group consists of four divisions — Exploration, Production, Resources Development and Oil Sands. It accounts for 64 per cent of total assets and in 1979 earned 68 per cent of Suncor's pre-tax operating income. The Sunoco Group manages Suncor's downstream operations including crude oil trading and the refining and marketing of gasoline, fuel oil, petrochemicals and industrial lubricants.

A long range plan was established for the new Company consisting of specific objectives and strategies for each of the two groups. Opportunities and obstacles were carefully evaluated. We believe the decks have now been cleared for major growth in Suncor operations over the next five years.

Defining Group strategies

For the Exploration, Production and Resources Development Divisions, the basic strategy is to invest and grow. Priority will continue to be given to building conventional reserves in the western provinces. We expect to bid aggressively at Crown land sales for opportunities identified by our growing geophysical and geological programs. Properties will also be sought in areas adjacent to new discoveries.

New reserves are being pushed into production as soon as feasible to generate income in the near future.

There will also be increased emphasis on non-conventional oil especially from Suncor's large oil sands and heavy oil deposits in the Athabasca and Cold Lake regions of Alberta. We created the Resources Development Division late in 1979 to expedite these and other projects. This Division now manages

our non-conventional heavy oil, coal and uranium activities as well as exercising responsibility for identifying and evaluating acquisition opportunities.

Overall, we plan to make capital expenditures of more than a billion dollars on exploration, development and production projects from 1980 to 1984 as our contribution to Canadian energy self-sufficiency.

The Oil Sands Division will be tightly managed. One objective is to complete expansion on time and within budget. Our second aim is to achieve maximum production consistent with safe, reliable and efficient operation, so as to generate funds for investment in new sources of energy supply.

The Sunoco Group will also be managed to obtain improved returns, primarily for reinvestment in exploration and production. Following an intensive business review in 1978, we created a special team to evaluate opportunities for enhanced performance. They found that significant opportunities do exist to improve product balances, increase production and reduce working capital requirements, consistent with directions already being pursued by operating management. We anticipate additional capital spending to implement these recommendations and to maintain the competitive position of the Sunoco Group.

Our management style

Every successful company has an identifiable style. Ours is delegation of responsibility to the operating level within the framework of a corporate plan. Delegation is accomplished in a manner designed to promote both relative autonomy and accountability.

Whenever possible, we promote from within and we develop our own people accordingly. We believe we have the best personnel available and we intend to keep them. Our stated policy is therefore to pay more than the norm and expect more in results. We have

consciously adopted excellence as our standard.

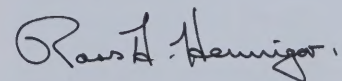
Despite increased size and the inevitable pressures of reorganization, we have managed to retain our reputation for having an open, informal and productive work environment. Turnover is declining and our morale is good.

Frankly, I'm impressed by the personnel at Suncor and I would like to take this opportunity to congratulate everyone for the over-achievement of their 1979 goals which has lead to such a successful 1979 for Suncor.

The outlook for 1980

Suncor has momentum, and provided the political climate remains conducive to our efforts, we will make major gains in 1980. Conventional production of both oil and gas should rise. Synthetic crude oil production should also increase as there is no maintenance shutdown scheduled in 1980.

To increase petroleum supplies, we expect to continue to plough our earnings back into exploration and resources development. Planned capital spending is about \$250 million in 1980, an increase of 90 per cent over 1979. Over 90 per cent of this amount will be allocated to the upstream part of our Company. If all goes according to plan, 1980 should be another rewarding year.



Ross A. Hennigar
President and
Chief Executive Officer

The Goal of Self-Sufficiency — An Interview with Ross Hennigar



Question: Everyone is talking about Canadian self-sufficiency in petroleum. Just how important is this?

Hennigar: It may well be the most important issue facing Canadians today. We have an opportunity to become one of the very few industrialized nations beyond the influence of OPEC and the impact of dwindling world supplies.

Developments in Iran are a blunt message to us all. We simply cannot rely upon distant, unstable and culturally unsympathetic regimes for one of our most basic commodities. Even now, we are importing more than 20 per cent of our crude oil requirements and this could grow to 40 per cent by the end of this decade if steps aren't taken now to achieve self-sufficiency. I seriously doubt that this oil will be available on acceptable terms, politically.

It would be a tragedy if we were to allow ourselves to drift into this situation. We have the resources here in Canada—in the oil sands, in reserves of heavy oil, in frontier resources—to become independent of world markets. The cost is considerable but the rewards are enormous. What is needed is the national will, the unity of purpose, to begin the urgently needed work now.

Question: Is self-sufficiency a realistic goal?

Hennigar: Yes. Canadians are debating whether or not self-sufficiency is realistic and what the timetable should be, but surely this is no time to quibble. Any reduction in our import dependence is valuable. Every extra barrel of oil produced in Canada brings with it a measure of security. At Suncor, we believe self-sufficiency can be achieved by 1995 if decisions are made now and if we stay with these decisions until the job is done.

Question: What decisions are needed to reach self-sufficiency in petroleum?

Hennigar: Specifically, Canadians need to make three commitments. First, a commitment to higher prices. Secondly, a commitment to continuing incentives for the petroleum industry. And third, a commitment to develop non-conventional sources — heavy oil, oil sands and the frontier areas.

Canada's pricing of refined products is encouraging excessive consumption. Gasoline demand rose about four per cent in 1979 despite the better fuel economy of new cars. There is no reason why this sort of growth cannot be reduced without any real sacrifice to our way

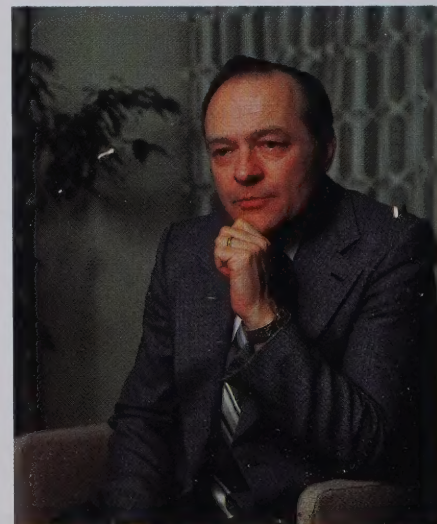
of life. Higher prices would accomplish this reduction in the fastest and fairest manner possible. At the moment, our price is the lowest among the world's industrialized nations and our per capita consumption of oil is the highest.

Question: But won't this cause hardship for low income people? And what about the impact on our economic growth?

Hennigar: Exemptions can be allowed for certain kinds of business and for agricultural use. And we might need higher social assistance payments to offset the effect of price increases on the disadvantaged. Special taxes could also be imposed on conspicuous consumption, in the interests of fairness. Higher prices need not be inequitable. In fact, I think we must make every attempt to be fair.

There will be a short-term impact on our economic growth but not as much as most people think. The U.S., our major trading partner, is decontrolling its prices and the European economy is performing better than ours while paying OPEC prices. Canadian industry is actively pursuing conservation. Consumption has actually declined in several major sectors.

Higher prices will work. Much of our current consumption is discretionary rather than necessary



and as such, it can be discouraged by increasing the cost. The real concern now has to be transportation which accounts for about one quarter of our oil consumption. Perhaps we have to examine the possibility of massive subsidies to mass transit or a national vehicle inspection program designed to encourage tune-ups. Some estimates indicate if our vehicles performed up to manufacturers' specifications, we would save as much as 3.6 billion litres of gasoline a year.

We have to get serious about conservation in the transportation sector. A barrel saved is much cheaper than a barrel found, especially if it is imported.

Question: For an oil company president, you put a lot of emphasis on conservation. What about supply?

Hennigar: Higher prices are the key to supply, also. Every day that passes without substantial energy price increases, there is further delay in the vital transition to renewable resources. Solar, wind, biomass and other forms of energy could make a contribution to self-sufficiency by the end of this century. However, the development work and investment necessary for commercial-scale exploitation of these sources will not begin until it is clear that they are economic. And they will not be economic if we continue to subsidize inexpensive and easy-to-use petroleum.

Higher prices are also needed to bring new oil and natural gas supplies into production. We estimate that the average cost to recover or "lift" a barrel of oil in Canada will increase more than tenfold by 1995. This enormous increase reflects the additional expense of obtaining oil from the tar sands and similar sources to replace dwindling supplies of conventional crude oil. Obviously the price of oil must rise substantially to absorb these costs as well as the expense of explora-

tion, transportation, refining and capital, not to mention royalties and taxes.

Question: Does that mean world prices?

Hennigar: At least close to them. World prices accurately reflect the economic value of oil — otherwise it wouldn't sell. And the world price is that amount likely to encourage new production, related as it is to supply and demand. However, I don't believe Canadian consumers should be subject to the whims of the OPEC cartel. We have to be realistic. Higher prices in line with supply and demand, yes. But not adjustments every time OPEC has a meeting.

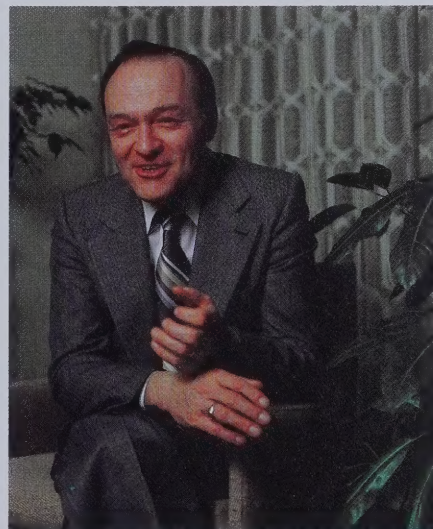
World price currently does apply to oil sands production and this arrangement has made our Fort McMurray plant more profitable. But the risks were high. You also have to consider earnings over the life of the project, not just the most recent year. We took a beating at our oil sands plant for more than a decade. It was one breakdown after another, rising costs, chronic losses and growing deficits. Only with world prices, granted last year, did the oil sands plant become economically worthwhile.

And even now, costs could catch up very quickly. There is the expense of expansion plus capital requirements for replacement and maintenance, environmental protection and rapidly increasing operating expenses. You also have to remember that our oil sands plant only has about 20 years to go before it exhausts the ore body.

Future projects of this kind will be substantially more expensive. Our industry needs higher prices to generate the necessary funds and to

proceed with early construction. And if oil sands projects are not built, we will still have to pay world prices for the imports to replace them, if imports are available. Those imports don't generate Canadian jobs, tax revenues or funds for reinvestment in energy development.

Self-sufficiency depends upon accelerated production from the oil sands. Canada's bitumen deposits contain more than three times as much oil as reserves in the Middle East. New oil sands projects have been based upon Ottawa's policy of world prices. Failure to honour this commitment — or to provide a workable alternative — will be a substantial disincentive to continue with these projects.



Question: Would you treat heavy oil production in the same way?

Hennigar: Heavy oil is very expensive to produce. Much of it isn't usable in Canada unless we build an upgrading plant and the cost will be high, both to build and to operate. Given these facts, I believe much higher prices are warranted, provided the upgrading plant is built so that heavy oil can make a direct contribution to our self-sufficiency.

Question: What about pricing of conventional oil and gas which is much less expensive to produce?

Hennigar: For conventional oil produced in the usual way from reserves in western Canada, prices should reflect those prevalent in Chicago with a gap of, say, 15 per cent to give our manufacturing industry a competitive edge. Prices should be moved towards these levels as soon as possible.

Natural gas from western Canada is currently priced below oil as an incentive to encourage conversion. This is a good idea and perhaps the current price gap should be increased somewhat in favour of natural gas, to encourage more substitution for oil.

Question: Higher prices are obviously to the advantage of the oil companies and the public is frankly suspicious.

Hennigar: Higher prices will mean higher revenues and this does raise some serious questions about how they will be distributed. This is a political issue for the people of Canada to decide. But one thing should be clear: increased revenues should be used to promote self-sufficiency, not subsidize the operations of government. They should be dedicated to solving our energy problems by providing for mass transit, tax incentives to conserve and funds to develop renewable energy. Also, a greater share of these revenues must flow through to the oil industry so that we can generate the earnings needed to achieve self-sufficiency.

Recently, Suncor analyzed the capital requirements for Canada to achieve petroleum independence. From now to the end of 1995, we believe the total investment needed will be about \$250 billion. If the en-

tire industry invests all its profits after taxes and pays reasonable dividends, we will still be short between \$50 and \$70 billion. We therefore need a higher rate of return.

There isn't time for a public sector solution to our energy problems. There isn't time for Petrocan to obtain the necessary leases, hire the expertise, raise the capital and do the job. Petrocan could make a contribution if its role is clarified. But even if I were a socialist, knowing what I do about the energy situation, I would have to tell industry to get on with it.

However, higher earnings must be treated by our industry as a trust for development of Canadian resources to meet Canadian needs.

Question: How do we know the industry will play fair?

Hennigar: It isn't all that difficult. Look at the facts. In 1979, our industry invested more than \$10 billion exploring for and developing Canadian petroleum resources — nearly equivalent to the total value of all oil and gas production in Canada during the year. In 1980, Suncor expects to invest almost twice as much as last year in the search for new supply. As long as these trends continue, we deserve the confidence and support of our citizens. And these trends will continue if the regulatory and fiscal climate is positive.

The Canadian people don't have to give us blind faith or a blank cheque. Through governments and their agencies, the public can make sure that the national interest is being served.

Question: What about the frontier areas? We haven't entered them into the equation.

Hennigar: It looks like they would be economic to produce if we obtained higher prices. Suncor's holdings in the Mackenzie Delta, the Beaufort Sea, the Arctic Islands, and offshore Labrador all hold considerable promise. The problem is delivery.

Frontiers aren't given much weight in the National Energy Board's calculation of reserves because no commitment has been made for the necessary pipelines. If we make those commitments, our reserves of natural gas would be much greater than we presently show. We could then export more of it which would achieve a number of things. Higher exports would help us to pay for crude oil self-sufficiency. They would offset the cost of imported oil in the interim, thereby helping our balance of payments. And by assisting the U.S., we would provide a boost to our own economy which is so dependent on theirs.

I'm a Canadian and I believe in this country. We have the natural resources and the ingenuity to build a highly successful society. Sometimes there's been a lack of direction, a lack of confidence. Regional loyalties are very strong. But a challenge like self-sufficiency may be just what we need to pull ourselves together as a nation. It will give Quebec a powerful reason to stay in Confederation.

In the last century, we built a vision of our country around an engineering marvel, a railway from coast to coast. In this century, we are being called to an equal task with the same objective — the capacity to pursue an independent course in the world.

March 14, 1980

The following is management's analysis of financial results beginning with the Consolidated Statement of Earnings:

Introduction

The Company is a net purchaser of crude oil because refinery consumption exceeds production of conventional and synthetic crude oil. On this basis, all of the Company's crude oil production, including sales to third parties, is deemed to be consumed internally. Sales and other operating revenues therefore include only sales of refined products and natural gas. Another effect is that operating profits on the sale of crude oil are applied to reduce raw material costs of refined product sales.

Earnings

Earnings before extraordinary gains for the year were \$169.8 million, an increase of \$112.0 million over 1978. The increase consisted primarily of \$68 million attributable to the receipt by the Company of world price compensation for synthetic crude oil production starting April 4, 1979, and \$30 million from increases in petrochemical sales volumes and prices.

Revenues

Revenues rose by \$179.2 million or 32 per cent from 1978 to 1979. This was primarily due to gasoline and fuel oil price increases (\$89 million), petrochemical price increases (\$63 million), sales volume increases mainly in petrochemicals (\$14 million), and higher interest income from short-term investments (\$5 million).

Expenses

Costs and operating expenses decreased by \$27.9 million or 12 per cent. The principal reason for the decline was the receipt of world price compensation for synthetic crude oil production which had the effect of reducing the Company's net crude oil costs. This reduction in costs and operating expenses,



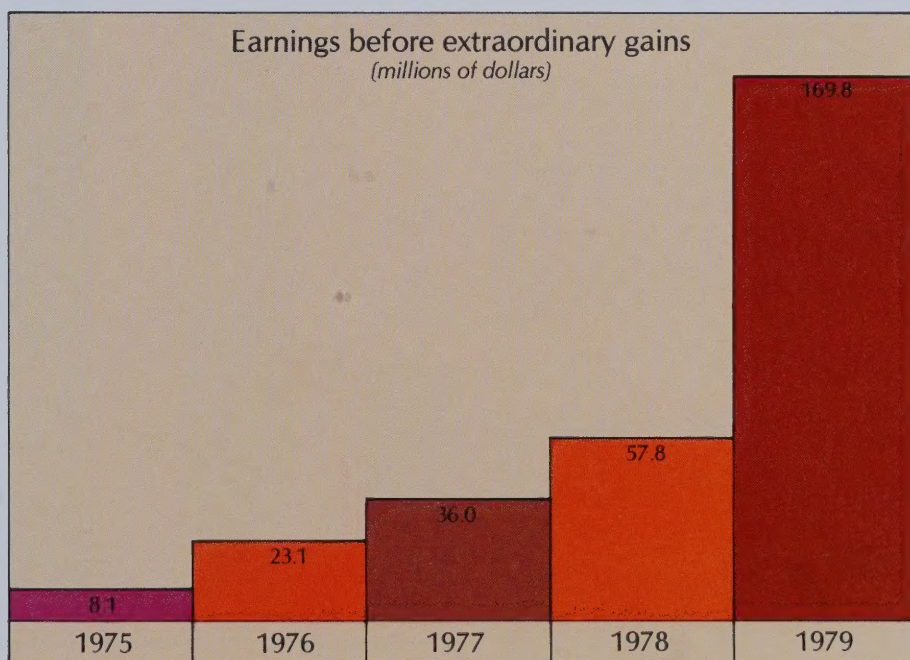
The new reclaimer for supplemental mining at Suncor's Fort McMurray oil sands plant.

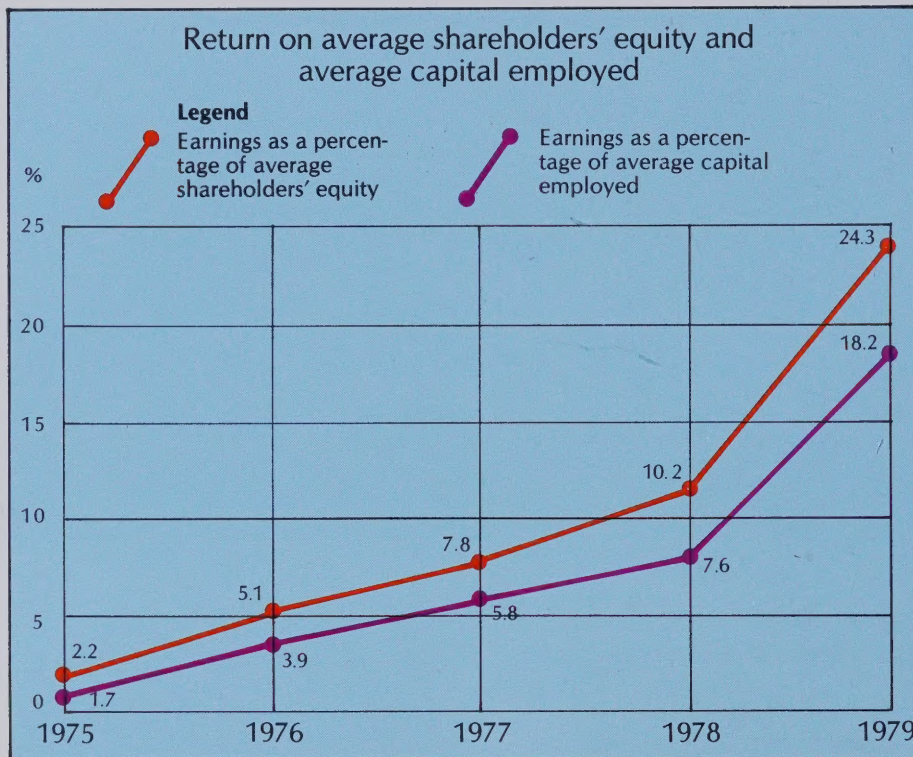
which amounted to \$123 million, was offset by other cost and operating expense increases of 42 per cent totalling \$95 million.

The main offsetting increases in costs and operating expenses were: increases in the costs of refinery raw materials, including the costs of purchases of crude oil and raw feedstock from third parties, pipeline transportation costs and the federal petroleum levy (\$69 million);

higher Sarnia refinery expenses including those associated with the orthoxylene unit which began production in mid-1978 (\$14 million); and higher costs related to the production of conventional and synthetic crude oil and natural gas (\$12 million).

Selling, administrative and general expenses were up \$8.1 million or 14 per cent due principally to in-





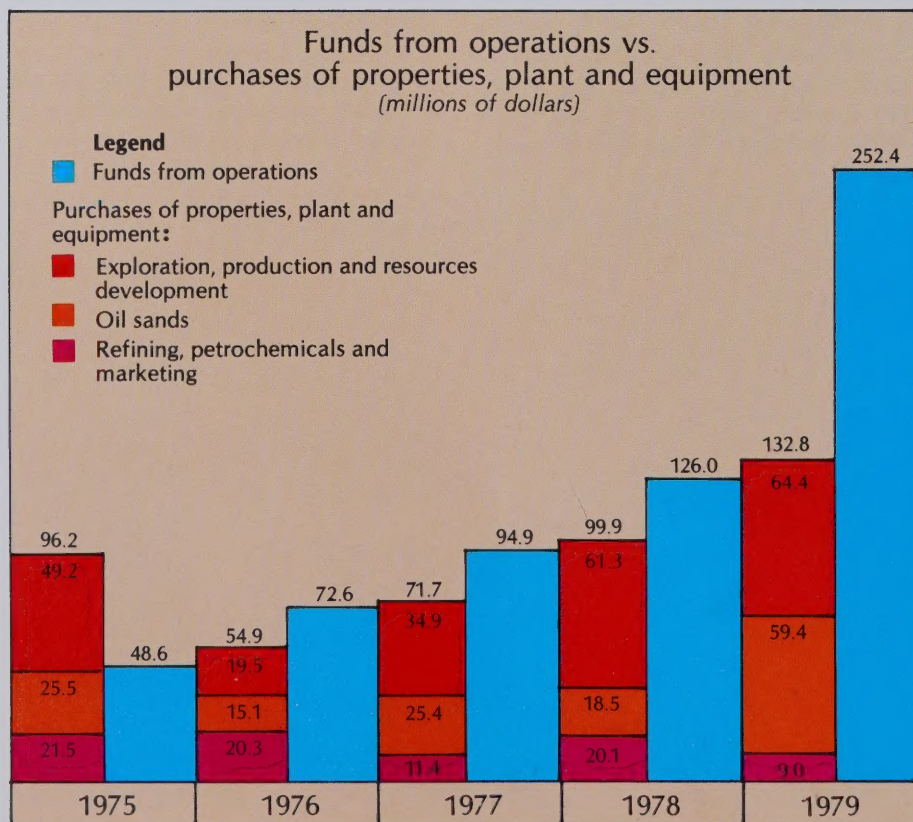
creased advertising and metric conversion costs and higher operating expenses for new retail car wash outlets.

Royalties increased by \$28.7 million or 42 per cent mainly as the result of higher crude oil and natural gas prices. Of this amount, \$22 million was related to the receipt of world price compensation for synthetic crude oil production.

Depreciation, depletion and amortization charges increased by \$8.8 million or 15 per cent largely as a result of continuing growth in the Company's investment base.

Income taxes

Income taxes increased by \$52.7 million to a total of \$86.1 million primarily as a result of increased pre-tax earnings. The effective tax rate declined from 36.6 per cent to 33.6 per cent for reasons outlined in note 2 to the financial statements.



The following is management's analysis of the Consolidated Statement of Changes in Financial Position:

Sources of funds increased by \$126.2 million to \$269.7 million in 1979. Most of this increase was due to higher earnings as reflected in a funds from operations increase of \$126.4 million.

Uses of funds increased by \$25.6 million to \$149.4 million primarily reflecting increased capital expenditures. Capital expenditures on properties, plant and equipment were up \$32.9 million to \$132.8 million mainly as a result of the oil sands plant expansion which began in 1979.

Working capital grew by \$120.3 million in 1979. This included a \$102.9 million increase in cash, time deposits and short-term investments less short-term borrowings, with the remainder due primarily to the effect of higher prices on accounts receivable, inventories and accounts payable.

Exploration, production and resources development spending

	1979 (millions of dollars)	1978
Exploration		
Drilling	\$14.3	\$ 9.2
Land holdings	11.0	12.4
Geology, geophysics and other	6.3	2.9
	<u>31.6</u>	<u>24.5</u>
Production		
Development drilling	15.9	9.3
Acquisitions and land holdings	6.6	15.5
Plants, related facilities and other	6.1	8.3
	<u>28.6</u>	<u>33.1</u>
Resources development		
Heavy oils and minerals	8.2	5.5
	<u>\$68.4</u>	<u>\$63.1</u>

Taxes and other government revenues

	1979 (millions of dollars)	1978
From Suncor Inc.		
Taxes other than income taxes		
Federal sales and excise taxes	\$ 41.8	\$ 44.9
Property taxes, production taxes and other	7.2	7.5
	<u>49.0</u>	<u>52.4</u>
Income taxes — current	34.9	4.0
— deferred	47.0	28.4
Federal petroleum levy	12.5	1.1
Crown royalties, less incentive credits	69.6	49.9
Crude oil, natural gas and mineral lease acquisitions and rentals	14.8	13.0
	<u>227.8</u>	<u>148.8</u>
Collected for governments		
Gasoline and diesel fuel taxes	68.4	59.0
Export taxes	41.5	15.2
	<u>\$337.7</u>	<u>\$223.0</u>

The following refers to the Schedule of Segmented Data:

Exploration, production and resources development. This segment's contribution to the Company's pre-tax profit declined by \$1.7 million in 1979 due to higher expenses. Depreciation and depletion increased \$4.8 million in 1979 as a result of continuing growth in the investment base. Other expense increases included higher production royalties, research expenses and lifting costs related to the increase in crude oil production volumes.

Oil sands contributed an increase over 1978 of \$100.6 million in the Company's pre-tax profit, due mostly to the receipt of world prices. Operating costs were up only marginally from 1978 reflecting lower production volumes in 1979 and high 1978 expenses due to the impact of the labour strike during that year.

Refining, petrochemicals and marketing contributed \$64.8 million additional pre-tax profit compared to 1978, mainly as a result of higher petrochemical and gasoline prices.

Other highlights:

Return on capital employed

The return on average capital employed increased to 18.2 per cent in 1979 from 7.6 per cent in the previous year. Return on average shareholders' equity was 24.3 per cent for 1979, up from 10.2 per cent in 1978.

Dividends

The Company made the first dividend payment on the new Preferred Shares Series A on December 1, 1979. This is the first dividend ever paid by Suncor or its predecessor companies. The Preferred Shares Series A have a stated capital of \$24 each and bear a cumulative annual dividend rate of \$1.92 per share, payable quarterly.

Resources Group



W. R. (Bill) Loar, Executive Vice-President, Resources Group.

Overview

The basic mission of the Resources Group is to ensure an increasingly important role for Suncor in the search for, development and supply of Canadian energy and mineral resources.

During 1979, production increased for conventional oil, including heavy oil. Alberta's allocation factors were raised substantially in 1979 to permit higher output in response to increased demand. Synthetic crude production from the Fort McMurray oil sands plant was down as a result of a major fire and a planned maintenance shutdown. Natural gas production was maintained at about the 1978 level.

Natural gas production in 1980 should increase in response to higher domestic demand and new export permits approved last year by the National Energy Board. Suncor will participate in these exports and will also bring new fields on stream to supply domestic markets, under the terms of previously ar-

ranged contracts. Nonetheless, our largest natural gas purchaser will likely take less than contracted minimums again in 1980 and no new gas sales contracts are likely during the year.

Oil production should also increase in 1980. Conventional crude should hold at the levels attained in 1979 whereas non-conventional heavy oil should increase. Synthetic crude output should rise given the fact that no maintenance shutdown is scheduled for this year.

Our exploration emphasis in the western provinces continued in 1979 as it will again in 1980. In addition, recent discoveries by the industry in the Arctic Islands, the Beaufort Sea and Canada's east coast offshore area have rekindled interest in these areas. Suncor has substantial holdings in each of these three frontiers and will continue to be active in 1980.

Our oil sands expansion is proceeding very satisfactorily. More than 90 per cent of our procurement for this project will be Canadian.

Heavy oil development will be stepped up in 1980 in anticipation of a much larger role for this resource in the future.

Overall, our properties, plant and equipment outlays on conventional exploration and production could reach \$105 million in 1980, up 83 per cent from 1979. Investments for oil sands production, including expansion, are expected to be about \$125 million in 1980, an increase of 111 per cent from 1979. Spending to develop other non-conventional energy supplies should reach about \$5 million, bringing total planned capital expenditures for the Resources Group to around \$235 million in the coming year.

Our programs will be supported by an expanded seismic program which in 1979 surveyed 4 870 kilometres. A separate new Geoscience

Projects department has been established to assess opportunities and assist in locating potential new discoveries in advance of the industry.

Constraints exist in exploration and production. Qualified people are in short supply. Drilling rigs are in great demand. Prices for land are high. However, we have identified specific strategies to attack these difficulties which should enable us to expand our share of Canada's hydrocarbon production in the next several years.

Exploration Division

Suncor continued to emphasize exploration for conventional reserves in the western Canadian provinces in 1979. We participated in a total of 24 gross exploratory wells in this region during the year, yielding one oil and eight gas discoveries — a success ratio of 37 per cent.

A total of 21 wells were drilled in Alberta where eight of the nine successes were located. One gas well was located in British Columbia.

On a net basis, Suncor's exploration program amounted to 16 wells of which Suncor's share of discoveries was four.

The principal areas of activity were:

- North Kaybob area: An oil discovery was drilled in this region of central Alberta, northwest of Edmonton. The well tested at 95 m³ per day. A separate gas test from a shallower formation showed an open flow rate of 0.21 10⁶ m³ per day. Two further wells failed to find oil but both yielded gas, one confirming the original reservoir and the other locating a

new formation which flowed at a rate of $0.03 \times 10^6 \text{ m}^3$ per day. Suncor holds interests ranging from 25 to 100 per cent in 8 000 gross hectares. Geophysical work was also conducted and more drilling is planned for 1980.

- Pine area: A well was drilled in this area northeast of Hinton, Alberta in 1979 and completed as a potential gas well based upon drill stem tests. An additional 714 hectares of Crown land were posted for sale and acquired immediately after the test. Further drilling is planned in 1980. Suncor has a one-third interest.
- Gambler area: In 1979, Suncor negotiated a farmin agreement covering 2 849 hectares in which we will earn a 50 per cent interest following completion of three wells at our expense. One well was drilled and completed in 1979. Drill stem tests indicated commercial volumes of gas in two formations. Suncor subsequently acquired a 100 per cent interest in an additional 518 hectares in the same area which is north of Edmonton. Two further wells are planned in 1980 to fulfill the farmin agreement.
- Elnora area: Two gas discoveries were drilled and completed in 1979 in this area southeast of Red Deer, Alberta on leases covering 2 048 hectares. Further drilling is contingent upon availability of gas markets. Suncor has a 50 per cent interest.

Total spending on exploration drilling reached \$14.3 million in 1979, up 56 per cent from the previous year.

Substantial additions were made to our exploration land holdings in 1979. A total of \$9.2 million was spent to acquire 100×10^3 gross hectares (52×10^3 net hectares). Emphasis was once again placed upon the acquisition of properties with near term potential.

Western provinces wells completed

	1979		1978	
	Gross	Net	Gross	Net
Exploratory wells				
Oil	1	—	1	1
Gas	8	4	8	4
Dry	15	12	10	6
Total	24	16	19	11
Success ratio	37%		47%	
Development wells				
Oil	89	39	48	27
Gas	34	23	61	40
Dry	8	7	10	7
Total	131	69	119	74
Success ratio	94%		92%	

Undeveloped land holdings

	1979		1978	
	Gross	Net	Gross	Net
(thousands of hectares)				
Oil and gas				
Western provinces				
British Columbia	151	65	110	54
Alberta	407	220	363	189
Saskatchewan	5	2	5	2
Manitoba	1	1	2	1
	564	288	480	246
Frontier				
Northwest Territories and Yukon	204	84	204	84
Mackenzie Delta/Beaufort Sea	567	223	567	229
Arctic Islands	8 498	3 342	11 536	4 328
Offshore Labrador (federal)	9 018	902	10 299	1 023
Offshore Nova Scotia	341	68	341	68
	18 628	4 619	22 947	5 732
Total oil and gas holdings	19 192	4 907	23 427	5 978
Minerals	192	75	151	62
	19 384	4 982	23 578	6 040



In the frontier areas, the news for Suncor was good. In the Arctic Islands, two wells were spudded in February 1979 — Whitefish H-63, 40 kilometres west of Lougheed Island and Desbarats B-73, 33 kilometres northwest of Cameron Island. Both were located on Suncor holdings farmed out to the Arctic Islands Exploration Group in 1976. Artificial ice platforms were constructed to support drilling rigs.

Whitefish was a major gas discovery. Three potential zones were encountered. The lower one, at 2 077 to 2 126 metres, flowed gas on restricted choke at $0.23 \times 10^6 \text{ m}^3$ per day with a spray of light condensate and no water. There was insufficient time to test the upper zone and the middle zone was only partially tested for the same reason.



Whitefish did not reach its projected depth of 3 100 metres before the end of the drilling season. Desbarats B-73 was dry.

Three more wells are to be drilled in 1980. The first, Whitefish G-63, was spudded in December to further test the 1979 discovery and to probe a deeper formation to a total projected depth of 3 140 metres. It is being drilled from one of the platforms built for last year's program.

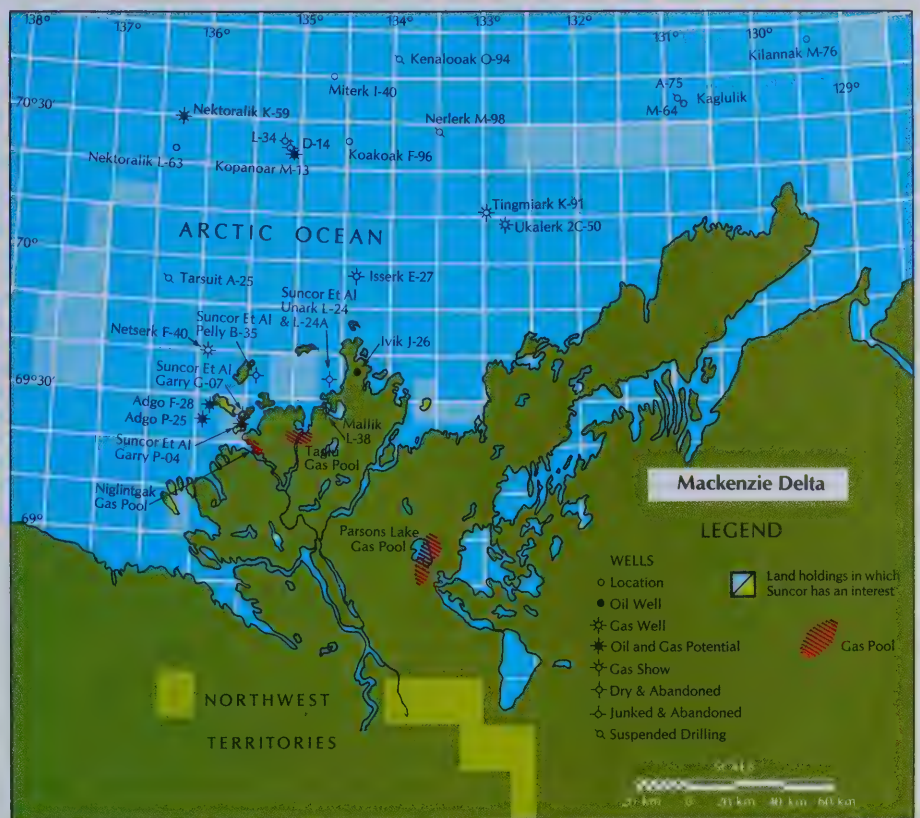
Whitefish G-63 also found gas. As announced in early January 1980, the well tested gas at a depth of 874 to 906 metres. Restricted choke flow was $0.21 \times 10^6 \text{ m}^3$ per day from the uppermost zone. The middle zone was tested in February 1980 and flowed gas at $0.41 \times 10^6 \text{ m}^3$ per day with a light spray of condensate and no water. This was a drill stem test on a restricted choke at a depth of 1 672 to 1 698 metres. Drilling and testing continues.

Two other wells will be drilled, Balaena D-58, southeast of King Christian Island and Char G-07 south of Ellef Ringnes Island.

Under the terms of the Arctic Islands farmout agreement, Suncor's interests will be reduced to 40 per cent of its current holdings upon completion of an \$80 million exploration program conducted by the Arctic Islands Exploration Group of which \$48 million is to be expended on Suncor's interests. At the end of 1979, total AIEG expenditures on our behalf were \$34.8 million and another \$8.5 million is planned for 1980.

The 1979 drilling season in the offshore Labrador area was cut short by poor weather and rough seas but the results were nonetheless encouraging. The Labrador Group, in which Suncor has a ten per cent interest, drilled three new wells and re-entered a previously suspended well.

Tyrk P-100 was drilled to a total depth of 1 739 metres, plugged and abandoned.



The Pelican, one of three drillships used in 1979 by the Labrador Group to explore offshore. Suncor is a partner in the Group.

Roberval K-92 was re-entered and drilled to a depth of 3 870 metres. Technical difficulties were encountered in attempting to evaluate an indicated hydrocarbon-bearing zone below 3 080 metres. A combination of operational problems and poor weather prevented further work. The well was suspended and the drilling unit released.

Gilbert F-53 was drilled to 1 728 metres, about one-half of its planned depth. The well was suspended and the rig released. Gilbert will be re-entered in 1980 and drilled to a planned total depth of 3 850 metres.

Bjarni O-82 was drilled to 2 650 metres. Inconclusive initial testing of a hydrocarbon-bearing zone between 2 362 and 2 373 metres yielded gas at $0.2 \times 10^6 \text{ m}^3$ per day and



JOHN F. RIVETTE

Suncor's Adsett well in northeastern British Columbia, a major gas find in 1979.

condensate at 11 m³ per day. Inclement weather precluded further testing of other zones, the well was suspended and the rig released.

In 1980, the Labrador Group plans to undertake a follow-up program using at least three drillships. We believe the area offers excellent potential for important new hydrocarbon reserves.

Suncor holds 457 900 gross hectares in two main areas 80 kilometres distant and on either side of Dome's major 1979 oil discovery at Kopanoar, in the Beaufort Sea. Suncor is evaluating options for an exploration program involving these interests.

Production Division

Suncor's production development program in western Canada added significantly to gas reserves in 1979. Production of oil increased while natural gas volumes were about the same as the year before.

Gross proved reserves of natural gas were 14.0 10⁹ m³ as of December

31, 1979, up six per cent from one year earlier. However, gross proved reserves of crude oil and natural gas liquids were 11.7 10⁶ m³ as of December 31, 1979, down two per cent from the previous year end.

Gross daily sales of natural gas averaged 1 753 10³ m³ during 1979, about the same as in 1978. Gross daily production of crude oil and natural gas liquids averaged 2 692 m³, up ten per cent from the previous year, including both conventional and non-conventional heavy oil, but excluding synthetic crude oil produced by the Oil Sands Division.

Suncor drilled or participated in 131 gross development wells in 1979, up from 119 the year before. Results included 89 oil wells, 34 gas wells and eight dry holes for a success ratio of 94 per cent which compares favourably with the industry. Measured against the previous year, there was considerably more emphasis on oil wells in 1979 in response to the Alberta increase in allowable crude production and our accelerated heavy oil program in Alberta and Saskatchewan.

On a net basis, Suncor's development drilling amounted to 69 wells in 1979. Production drilling expenditures were \$15.9 million, up 71 per cent from the previous year.

To build up a larger base inventory of development projects, we made significant additions to our land position, by purchasing a net total of 4 184 hectares of undeveloped production properties from the Crown in 1979. To acquire these interests, Suncor spent \$4.4 million, up 196 per cent from the previous year's total.

Among the year's achievements:

- Adsett area: A development well yielded a significant gas discovery. Drilled to a depth of 2 650 metres, the well indicated on test an open flow potential of 0.65 10⁶ m³ daily. The discovery is located 97 kilometres south of Fort Nelson in the Prophet River area of northeast British Columbia on

Gross production of conventional crude oil and natural gas liquids

	1979	1978
	(thousands of cubic metres)	
Alberta		
Bonnie Glen	111	66
Swan Hills	86	91
Medicine River	81	79
Pembina	37	39
Mitsue	33	30
Other	287	232
	<u>635</u>	<u>537</u>
Saskatchewan		
Steelman	79	87
Oungre	49	44
Other	131	138
	<u>259</u>	<u>269</u>
British Columbia	65	64
Manitoba	24	26
	<u>983</u>	<u>896</u>

Gross natural gas sales

	1979	1978
	(millions of cubic metres)	
Alberta		
Rosevear	112	105
Portage	82	83
Calling Lake	45	61
Ghost Pine	31	27
Other	283	291
	<u>553</u>	<u>567</u>
British Columbia		
Inga	28	16
Other	47	50
	<u>75</u>	<u>66</u>
Saskatchewan	12	12
	<u>640</u>	<u>645</u>

one of three parcels of land totaling 820 hectares purchased in a 1978 land sale. We plan to do further drilling in this area in 1980. Production is not yet covered by a sales contract. Suncor has a 100 per cent interest.

- **Calling Lake area:** Five new wells were drilled and four others completed from the previous year in this northern Alberta location. Of the five new wells, three were successful gas wells. Suncor is operator and holds a 60 per cent interest, picked up in the 1978 Sundance acquisition and farmin and another purchase in 1979. The gas is contracted for sale and gas gathering systems are under construction. This field should be on stream by November of 1980.
- **Blueberry area:** This is a producing oil and gas field in northeast British Columbia in which Suncor has a 35 per cent interest. We assumed the role of operator on January 1, 1980 and plan to undertake more exploratory work in the area. Suncor also took over operation of the Blueberry-Taylor pipeline, a 2 200 m³ per day facility connecting several fields in the area to a refinery at Taylor.
- **Countess area:** A total of 14 shal-

low gas wells were drilled in the area in 1979, all successful. Suncor has a 100 per cent interest. A further 22 shallow infill wells are planned for 1980 in the Countess area in which Suncor has a 50 per cent interest. Production is under contract and is being brought on stream as soon as the wells can be tied in. This area is eligible for the lower Alberta royalty on low productivity wells.

- **Youngstown area:** Five infill wells were drilled in 1979 yielding five producing oil wells in which Suncor has a 100 per cent interest. Another 580 hectares were purchased close by in late 1979 where one well was drilled but not tested by year-end. If successful, additional drilling will take place in 1980.
- **Tangleflags area:** A total of 14 successful conventional heavy oil wells were drilled in this area near Lloydminster, Saskatchewan in 1979. Suncor has a 100 per cent interest in the 27 wells now producing. There are no further drilling plans.
- **Baldwinton area:** Six conventional heavy oil wells were drilled in 1979, of which five were successful. Production volumes are



small but economic. Suncor has a 100 per cent interest in this area near Lloydminster, Saskatchewan. A similar program is planned for 1980 if satisfactory production rates continue from our recent development work.

Reserves

	Gross		Net	
	Conventional crude oil and natural gas liquids (millions of cubic metres)	Natural gas (billions of cubic metres)	Conventional crude oil and natural gas liquids (millions of cubic metres)	Natural gas (billions of cubic metres)
Proved				
January 1, 1979	12.0	13.2	8.2	9.9
Additions and revisions	0.7	1.4	0.5	1.3
Production/sales	(1.0)	(0.6)	(0.6)	(0.4)
December 31, 1979	<u>11.7</u>	<u>14.0</u>	<u>8.1</u>	<u>10.8</u>
Probable additional				
December 31, 1979	<u>1.5</u>	<u>4.7</u>	<u>1.1</u>	<u>3.5</u>

These reserve estimates have been prepared by independent consultants, Kloepper & Associates Ltd.

- Foothills area: Two wells were spudded by an outside operator in 1979, one in the Lovett River field and one in the Mountain Park field. Drilling is continuing. Suncor's interests are 25 and 31 per cent respectively. Production has been contracted for sale but facilities to process the sour gas from these fields are not likely until late 1982.

- Jenner area: A shallow gas well program should have continued in 1979 with Suncor as operator. However, legal disputes with partners prevented further work. Gas is under contract and gathering systems are in place, including compression and gas dehydration facilities. Suncor has interests ranging from 60 to 93 per cent in this area of Alberta.

Other developments: Suncor plans to re-enter the Black area of northeast Alberta in the winter months of 1980 with a shallow gas well program to follow up 1978 successes. Drilling will also be carried out in the Wayne-Rosedale oil field near Drumheller, Alberta. This field was discovered by Suncor in 1978. Development work will begin in the Ferrier area, 160 kilometres north-west of Calgary where Suncor purchased a 100 per cent interest in 580 hectares in late 1979 at a Crown land sale. The property is immediately adjacent to producing wells in the Ferrier-Cardium field. Development should also proceed in the Pine Creek area of north-western Alberta on 3 904 hectares following two Suncor gas discoveries in which our interest is 34 per cent.

Oil Sands Division

The Oil Sands Division operates the world's first plant to obtain synthetic crude oil from bituminous sands on a commercial scale. The plant is located near Fort McMurray, Alberta, in the Athabasca oil sands.

A four step process is employed. First, overburden is removed to expose the ore. Secondly, the ore is mined and loaded onto conveyor belts leading to the extraction unit. Third, the bitumen is separated from the sand in the extraction unit. Fourth, the bitumen goes to the process area where it is thermally cracked into coke and distillates. The distillates are desulphurized and blended to form high quality synthetic crude oil which then is shipped to Edmonton for distribution.

Production of synthetic crude averaged 6 753 m³ per day in 1979, down five per cent from 1978. The main reason for the decline was a fire in the process area on July 4, as reported in Suncor's third quarter report to shareholders. A second fire, on August 17, did not cause a significant interruption in production. Repairs from both fires are complete.

Production was also reduced by a planned shutdown in May and June to enable general maintenance work on key equipment, as required every other year. The shutdown period was delayed and extended so that work on the expansion of the plant could be done simultaneously, thus avoiding further stoppages later on.

Apart from the difficulties posed by the two fires, all plant operations performed reasonably well in 1979. Production set a new quarterly record in the final three months of the year, reaching 8 930 m³ per day.

About 80 000 tonnes of oil sands were mined on average daily during 1979, nearly four per cent below 1978 levels. The ore was of high quality, as it will be also in 1980.

Overburden removal was up 58 per cent from the previous year.

Approximately 32 000 bank cubic metres were removed on average daily, for a year's total of 11.7 million bank cubic metres. Bank cubic metres are units of overburden in place.

Overburden removal increased in part to compensate for the strike which occurred in 1978 and to prepare for expansion of production in 1982. Nonetheless, volumes were higher than budgeted. Plans call for a further increase in 1980 to get further ahead of the mining operation.

However, the cost of overburden continued to exceed estimates. Overall, the cost per bank cubic metre was up nearly ten per cent from the previous year. About 3.0 10⁶ m³ were removed by an outside contractor at a cost of \$7.0 million. An even larger amount may be contracted out in 1980.

Further dike work was undertaken on tailings pond number two during 1979. The tailings consist primarily of sand, clay and other substances in a sludge-like suspension which is stored on the mining site. Dike work on a third tailings pond will be necessary, for completion in 1983. Storage of the tailings, so as not to impede future mining operations, remains a significant and expensive logistical problem.

Synthetic crude oil gross reserves

	(millions of cubic metres)
January 1, 1979	66.6
Additions and revisions	1.2
Production	(2.5)
December 31, 1979	65.3

These reserve estimates have been prepared by independent consultants, Kloepper & Associates Ltd.



Bucketwheel digs into the mine face at the oil sands plant site.

Expanding and improving operations

Significant steps were taken in 1979 to expand production by approximately 2 000 m³ per day. Work should be completed in late 1981 and the additional capacity should be on stream in 1982 at a projected cost of \$185 million. By year end, \$29.7 million had actually been expended; 69 per cent of the engineering and about 17 per cent of construction had been completed. The project is expected to be completed on time and within budget.

In addition to expansion, about \$20 million in improvements will be made to existing facilities by the

same work crews. When the plant was originally built, much of the construction and engineering was done on a least cost basis. Now that the risks are largely known and the plant is commercially successful, improvements should be made and these are identified in a long range plan now being executed. One of the main objectives is to improve the reliability of the facilities.

To ensure sufficient capacity for removing overburden, we have ordered a new hydraulic shovel. Delivery is scheduled for the second quarter of 1980. Equipment testing over the next year should enable us to be fully prepared for expansion.

In the mining area, we are adding a third "bench" or "step" into the

ore body so that production can be increased to meet expansion requirements. Currently, there are two benches, each about 25 metres in depth.

A third bucketwheel will be added to the mining operation in 1981 to operate on the third bench. This huge piece of equipment scoops up the oil-bearing sand and places it on the conveyor system. Another 600 metres of belt conveyor will also be added parallel to the existing system to increase capacity.

In the extraction unit, we are putting in a new line to complement the existing four. One of the lines is out of service for maintenance on a rotating basis. Each line consists of a conditioning drum, which mixes the oil sand with hot water, and a separation cell where debris settles out from the bitumen. Ore bin capacity is also being expanded.

Steps are being taken to increase the recovery in the extraction area. A new unit is being installed to recover hydrocarbons from tailings before they are released into the tailings pond.

In the process area, we are adding another coking furnace to the three already there. The bitumen is thermally cracked at 475°C in coking drums, yielding coke and gases. Most of the gases are condensed, treated with hydrogen to remove sulphur, and blended to form synthetic crude oil. The coke must then be cut out of the drums after which most of it is used to fire boilers in the utility plant. Each coking furnace therefore has a pair of drums so that one can be emptied for reuse while the other is in operation.

To power the extraction and processing functions, we operate a sizeable utility plant which burns coke by-product from the process area. Steps are being taken to improve the utility's efficiency and capacity. A new boiler is being added which will use natural gas supplied by the Albersun pipeline, a Suncor owned and operated facility. A heat recovery system is also being constructed. This system will take hot water from the process area and recycle it for use in the extraction unit.

Expansion work is also proceed-

ing on the Company owned and operated pipeline which takes synthetic crude to Edmonton. A new pump station is being added and the other pumps rearranged to prepare for higher volumes in 1982.

All of the above noted improvements should be operational in late 1981. As a result, we believe we will have the most cost efficient configuration possible. Thus, further gains in output or efficiency must be obtained by changing operating procedures. This became a major new emphasis in 1979 and employees are responding positively.

The program's objective is to help employees do their jobs better. The principal method is to see what procedures are now actually being used and to upgrade them. In many cases, ideas from plant personnel could substantially improve productivity. These we intend to evaluate and adopt, if practical.

Recently, two of the older hands suggested changes to the mine plan so that bucketwheels and conveyors could be used to move overburden rather than trucks. Engineers

worked out the details. The result? Many millions of dollars will be saved over the next several years. The employees were rewarded accordingly.

An engineer in our Company has worked out a less complex method of cutting coke out of the coking drums. The plans look encouraging and will be tested in 1980.

These and other valuable ideas reflect the intelligence and loyalty of the people who work for the Oil Sands Division. We plan to make better use of these qualities in the years ahead. In 1980, we will involve employees in our budget setting, explain our objectives and seek advice. We are frankly excited by the prospects for improvement, both in terms of economics and job satisfaction.

Training methods are also being improved. New employees are now being given more thorough orientation, with the assistance of workers experienced in the area. We believe this will improve productivity and relieve pressure on more knowledgeable personnel.

Gross production of synthetic crude oil
(thousands of cubic metres)





Len Maraschuk checks fuel supply to the powerhouse furnace at Suncor's oil sands plant.

Protecting the environment

During 1979, important steps were taken to implement new environmental systems.

In November, work began on "rip rap" — a protective layer of rock at the base of the dike along the Athabasca River. This layer protects the dike from ice erosion and high flood levels. Work on this initial phase should be completed in February of 1980. Additional work of a similar nature will be carried out over the next several years.

A new separator will be installed in 1980 to maintain the existing quality of water returned to the Athabasca River after expansion takes place.

The pipeline carrying oil sands production to Edmonton is being upgraded. The line's leak detection system will soon include 24 hour monitoring in Edmonton as well as the current round-the-clock surveillance in Fort McMurray. This \$2.0 million expenditure will also enable

higher throughput. Work should be completed in 1980.

Construction has proceeded on a project to reduce particulate emissions to the atmosphere from the powerhouse stack. Electrostatic precipitators have been installed to remove particulates from the stack gases. Work should be completed early in 1980, at a cost of \$18 million.

In 1978, we submitted to the Alberta government our plan for reclamation of the plant site. The plan outlines measures for backfilling and revegetating mined out areas. This plan was approved in 1979 subject to further conditions which still need to be met. The cost of this work has not yet been determined.

Total spending on Suncor's oil sands project to protect the natural environment now exceeds \$100 million in the past seven years alone.

The human environment is also being improved. Rather than build temporary, low cost shelter for expansion work crews, we allocated \$5 million to construct high quality structures which are designed to be permanent accommodation for our workforce in the future.

Labour relations

The contract covering approximately 910 plant employees represented by the McMurray Independent Oil Workers expires in May of 1980. Negotiations began in January.

Resources Development Division

Canada's energy future depends upon developing new sources of energy. Heavy oil and oil sands projects have great potential and Suncor is consequently taking an aggressive position in the development of these resources.

Heavy oil is often too thick to flow to the surface using conventional means. It is frequently too far underground to enable us to make use of the surface mining procedures successfully developed by our Oil Sands Division. Non-conventional heavy oil must therefore be stimulated so that it can be brought to the surface.

Suncor is now the operator and 50 per cent owner of an experimental 2 007 hectare heavy oil project at Fort Kent in the Cold Lake area of northeastern Alberta. It is currently producing an average of 175 m³ of oil per day using steam stimulation. A mixture of 80 per cent steam and 20 per cent water is forced down wells for about 20 days. Three or four days are allowed for distribution of the heat underground. The heat reduces the viscosity of the oil, inducing it to flow for two or three months with the help of pumping. Production gradually declines along with the underground temperature until the process must be repeated.

Fort Kent began as a pilot project with six wells in 1977. Phase one, involving another 15 wells and steam facilities, was completed in 1978. Late last year, phase two was finished in which another 16 wells and additional steam facilities were brought into operation. Production should reach about 250 m³ per day in 1980 as phase two begins to achieve its output potential.

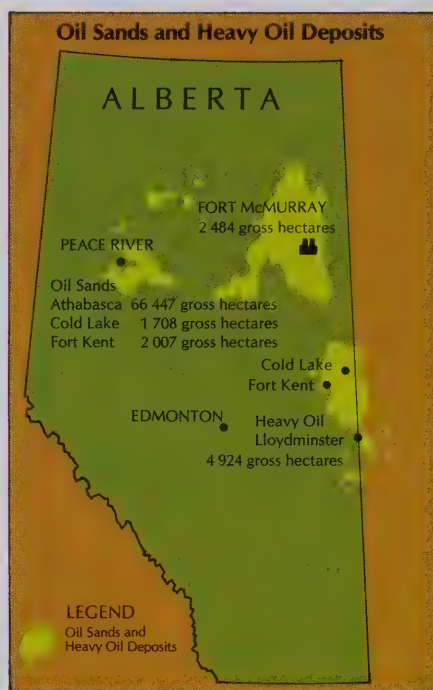
Phases one and two cost \$9.6 million, of which about 70 per cent was paid by Suncor.

Steam is currently generated using natural gas. Additional steam generating plants, each of about 50 gigajoules per hour capacity, are constructed for every 20 to 25 producing wells.

We do not as yet know if Fort Kent's oil bearing deposits are sufficient to warrant further development. Evaluation work is now in progress. Phase three, if attempted, could require about \$50 million in new capital of which Suncor's share would be 55 per cent. This phase would increase production by about 800 m³ per day. Approximately 100 more wells would be drilled and supported by additional steam generating plants. A decision is required by January 1, 1982. Our partner has estimated that total production from this project could reach 2 000 m³ per day with the expenditure of a yet undetermined additional amount of capital.

Suncor is also a 12.5 per cent owner of the Amoco Canada experimental project at Gregoire Lake near Fort McMurray, Alberta. A \$46 million pilot phase, expected to be completed in 1981, is testing the economic and technical feasibility of in situ forward combustion recovery of the oil located 300 metres below the surface. Small amounts are now being produced.

In situ forward combustion, or "fire flood" as it is sometimes



called, is another method of heating heavy oil and inducing it to flow. Air is forced underground into the reservoir through injection wells and the oil is ignited. The fire spreads slowly, burning a small portion of the oil, creating heat which reduces the viscosity of the surrounding oil deposits. Pumping takes place from wells located some distance from the fire. The flow of air regulates combustion. Water is added to the process, thereby generating steam underground which helps to distribute the heat.

As with Fort Kent, our Gregoire Lake involvement will provide technology which may be applicable elsewhere.

In the 1980s, Suncor's heavy oil program will expand significantly. A number of projects are in the planning stages and it is possible that one of them will be launched in the coming year. During 1980, 12 core holes will be drilled on our oil sands lease 27, near Gregoire Lake, to quantify the bitumen in place at this 20 000 hectare property in which we have a 100 per cent interest.

Suncor is pursuing uranium exploration as a participant in a number of different projects in Nova Scotia, New Brunswick, Saskatchewan and Manitoba. Partners include Eldorado Nuclear, Ontario Hydro, the Saskatchewan Mining Development Corporation and Inco.

Suncor is also undertaking economic and technical studies which could lead to greater involvement in the coal business. Leases were acquired in 1978 which will be evaluated by drilling in 1980. One potential market is to make use of coal to produce the heat needed for heavy oil projects.

The Resources Development Division has responsibility for acquisitions. An acquisition was completed in 1979 in the West Calling Lake area of Alberta at a cost of \$1.3 million. The holdings consist of undeveloped and developed land including four shut-in gas wells. Production could begin in 1980 under existing sales contracts.

Sunoco Group



S. A. (Stan) Cowtan, Executive Vice-President, Sunoco Group.

Overview

In a major reversal of the past several years, downstream operations recorded much improved results in 1979. Refinery output was up over 1978, gasoline volumes and prices increased, and petrochemicals made major gains.

Suncor's gasoline supplies were tight throughout 1979 primarily because of an overall industry increase in consumer demand of approximately four per cent. In addition, production was adversely affected by pipeline constraints on the delivery of crude oil and interruptions at the Sarnia Refinery.

The combination of supply and demand pressures resulted in substantial industry-wide price increases at the wholesale level for both gasoline and fuel oil in 1979. For gasoline, these increases carried through to the retail level. But for fuel oil, retail prices were more stable; the market actually contracted as consumers switched to natural gas and improved home insulation.

Although the pipeline from western Canada was expanded in 1979, domestic crude availability continues to cause some concern for

Suncor and the industry as a whole. Inventories are still too low and supply will therefore continue to be tight through 1980, with the possible exception of fuel oil in the fourth quarter. Growth in gasoline demand should be more moderate during the coming year while consumption of fuel oil could decline by five per cent.

The Sunoco Group will continue to emphasize efficiency. Improvements will be made to the refinery and selective investments will be carried out to upgrade our petrochemical and fuels marketing operations.

Refining

The average daily throughput of crude oil for the Sarnia refinery in 1979 was $12.2 \times 10^3 \text{ m}^3$, up 10 per cent from 1978. This volume was 85 per cent of rated capacity compared to 77 per cent for the previous year. Demand from Sunoco customers would have justified processing higher amounts of crude oil but the pipeline from western Canada was unable to accommodate additional volumes.

Several developments adversely affected refinery operations in 1979. Crude oil supplies were threatened by the July 4 fire at Suncor's oil sands plant which normally provides part of the Sarnia refinery's requirements. Other crude was ob-

tained on an interim basis until oil sands production resumed, although the substitute oil did not offer equivalent yields of gasoline.

A planned maintenance shutdown of the refinery's plant number one took longer than expected. However, the shutdown occurred after the longest uninterrupted period of operation in the history of the facility.

Two fires caused extensive electrical damage and reduced processing capacity for several days. Plant operations were returned to normal with temporary installations until permanent repairs were completed in January of 1980.

As a result of these developments, limited amounts of gasoline were secured from other refineries to ensure that our customers' needs were met.

Refinery throughput should increase again in 1980 given continued strong demand for refined products and expansion of the Interprovincial pipeline which was completed in late 1979. A planned shutdown of plant number two — scheduled for the spring of 1980 — will be postponed if operationally feasible.

The Sarnia refinery obtains all of its crude from domestic sources, including about 35 per cent from Suncor's own production. Some of the refinery's output is provided to another company for sale in On-



Separators at Sunoco's Sarnia refinery remove waste from water used in processing. Engineer Bruce Bevington checks operation.

tario. In exchange, this same company refines crude oil for Sunoco in Montreal to supply Sunoco's Quebec customers.

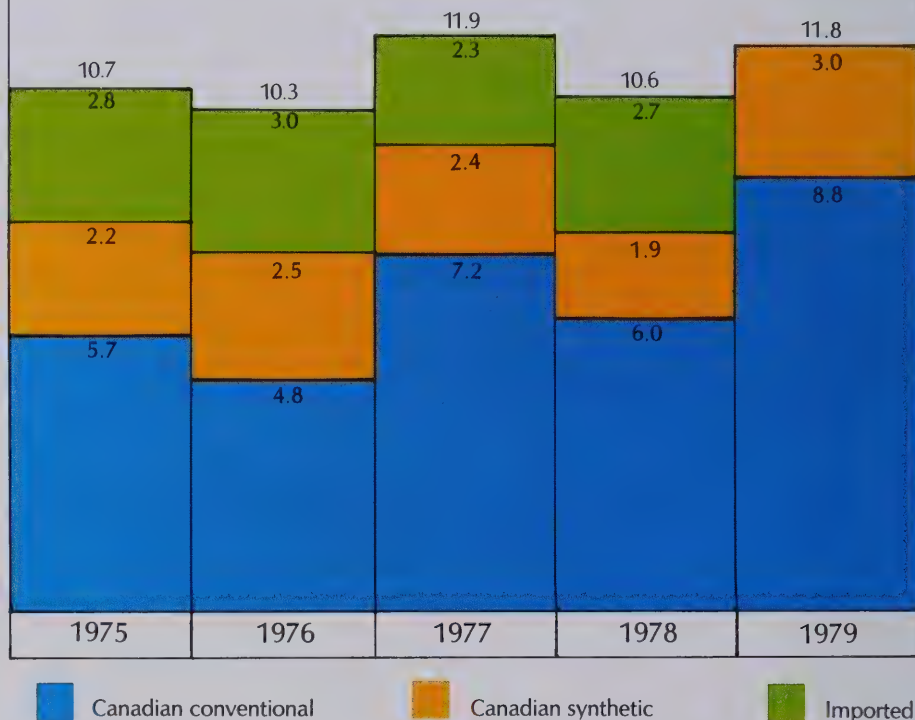
To obtain the necessary crude to meet our needs for refined products in Quebec, we have relied in part upon crude oil exchanges approved by the National Energy Board. Under exchange arrangements, we send crude south to U.S. markets from western Canada in return for equivalent amounts of foreign crude delivered to Portland, Maine and from there by pipeline to Montreal. Exchanges overcome the Interprovincial pipeline limitation and enable us to minimize purchasing of imported oil at high "spot" prices on the volatile world market.

Improvements costing \$5.4 million were made to the refinery in 1979. A new on-line computer system was installed to improve the flow of information and enable better maintenance and operating procedures. An automated system for controlling the injection of gasoline additives preventing rust and oxidation was put in place. New gasoline storage tanks were constructed. Both of the latter two changes will contribute to higher product quality.

Further improvements to the refinery are being considered for 1980. A fourth "reactor" may be added to plant number two at a cost of \$10.3 million, of which \$4.6 million would be expended in 1980. The reactor is a metal sphere, filled with catalyst, which upgrades naphtha to produce aromatics — benzene, toluene and xylene. These chemicals have a high value added and they are currently in great demand. Also under study are improvements to gasoline blending systems. Total capital spending should exceed \$10 million during the coming year.

Studies are also in progress to evaluate the impact of the Sarnia refinery on water quality in the area. A firm of outside consultants has been hired to carry out the work.

Sources of crude oil refined for Suncor account
(thousands of cubic metres per day)



Petrochemicals

Sales revenues more than doubled in 1979 and output increased by 28 per cent for Sunchem, Suncor's petrochemical arm. Increased output reflected a full year of production from the orthoxylene unit and generally higher utilization of capacity to meet strong demand.

Benzene was produced at 80 per cent of rated capacity and total output rose 18 per cent in 1979. The entire amount was sold in Canada to make styrene.

Toluene was produced at 95 per cent of capacity and output rose 28 per cent. Major customers in Canada, Europe and the United States use this chemical in the manufacture of products such as nylon, dynamite, paint and solvents.

Xylenes were also produced at 95 per cent of capacity during 1979 and output increased 12 per cent. Canadian, European and American

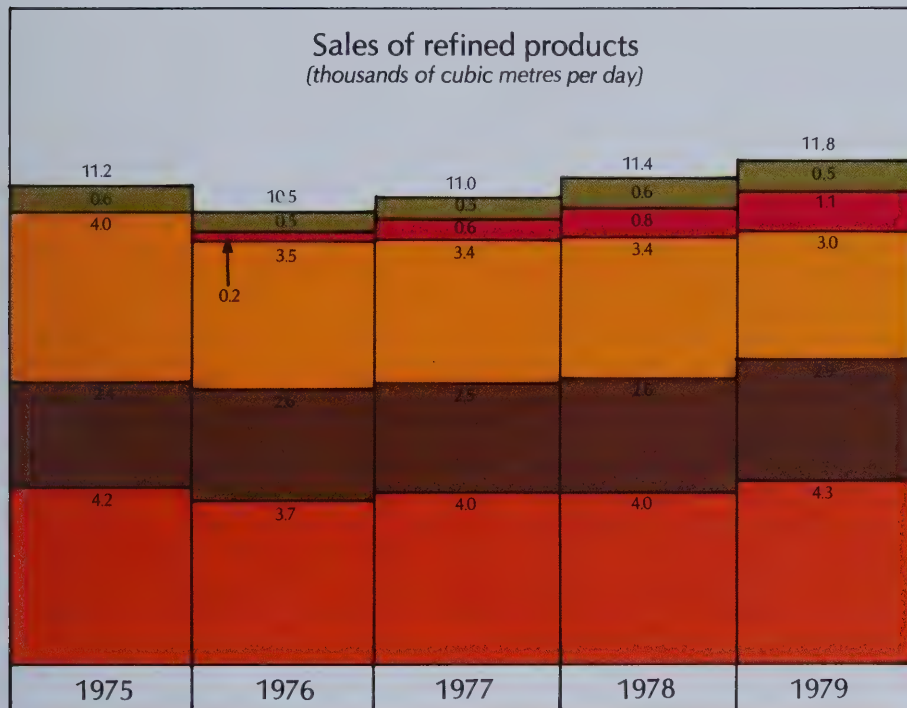
customers include paint, solvent, pesticide and polyester fibre manufacturers.

Orthoxylene output reached 110 per cent of rated capacity and volume rose 118 per cent. Canadian and U.S. customers use this chemical to make polyester, plastics and paint.

Higher throughput at the refinery and processing of part of another company's petrochemical stream should increase production in 1980. However, a maintenance shutdown has been planned for the benzene-toluene-xylene unit later in 1980.

Sunchem's markets in North America and Europe should remain firm in 1980 although price increases are likely to be more moderate than they have been in the previous two years.

Sales of refined products (thousands of cubic metres per day)



Marketing

Sunoco continued to outperform the industry in 1979. Market share increased significantly and gallonage per station rose 12 per cent over 1978. Overall, the results indicate further progress in enhancing the efficiency of our distribution network.

At year-end, there were 950 service stations in the Sunoco system compared to 990 the year before. A total of 38 locations were sold for \$6 million as part of our continuing program of freeing up capital for other uses. Ten of these service stations were sold to dealers. Since 1976, we have recovered \$31 million from the sale of 323 locations for either petroleum or non-petroleum use. This divestiture program is now nearing completion.

During the year, eight key locations were upgraded or converted to high volume self-serve outlets. More such improvements are planned as well as selective acquisitions of new sites.

A number of innovations contributed to higher Sunoco sales in 1979. Unleaded premium gasoline, introduced in late 1978, attracted substantial support from the public. Further gains are expected for this product in 1980. Pump conversions were also made to enable many of our outlets to offer a special "Blender Centre Pump" providing consumers with the option of blending their own lower cost unleaded gasoline mix. In addition, capital was expended to enable motorists to blend leaded regular with unleaded premium to offset the virtual disappearance of leaded premium gasoline.

Providing the motorist with additional choices helped to substantiate our successful advertising campaign launched in 1979, "Sunoco . . . a little more personal".



Suncor's petrochemicals arrive in Rotterdam, The Netherlands.



This house in Bears paw Village, Alberta, uses solar energy to provide hot water. The equipment is by Solartech, a Canadian company in which Sunoco is part owner.

Sunoco relies upon independent dealers more than many other marketers of gasoline. As a result, we intend to support the Sunoco dealers by maintaining this advertising campaign in 1980.

We put increased emphasis on auto parts, accessories and motor oil during 1979 to take advantage of a growing market. This effort was rewarded by a 66 per cent increase in sales of these products. Four more stations were equipped with automated car wash machinery. Both of these programs will continue in 1980.

The fuel oil market declined in 1979, both for Suncor and the industry as a whole. Consumers are responding to government policies designed to promote conservation and conversion to natural gas. This trend is expected to accelerate in coming years.

Our strategy is to place an increasing percentage of our fuel oil sales into contracted channels rather than selling to the spot wholesale trade. By year end, sales were being made through 19 operating divisions of subsidiary companies and 96 independent branded and unbranded distributors on term contracts. Further expansion of this network is anticipated in 1980.

An agreement in principle with Spur Oil of Montreal to purchase most of its Ontario marketing properties was disallowed by the Foreign Investment Review Agency in 1979.

Lubricants and specialty products

Revenues and earnings increased for industrial lubricants in 1979 although actual volumes were down moderately. Product margins improved, helping us to move closer to reasonable levels after several years of depressed market conditions.

The emphasis on custom blending and packaging was successful. Applications to customer specifications were developed and sold including continuous casting oils for the steel industry, mould release agents for foundries and process oils for plastics manufacturers. In 1980, we intend to focus on special textile oils, cutting fluids and hydraulic fluids.

Efforts to optimize plant efficiency by offering fee-for-service custom blending and packaging resulted in lower per unit manufacturing costs and significant improvement in profit.

A sales office will likely be added in Calgary in 1980 following the success of the Edmonton office opened in 1978. The continuing objective is to establish a national presence for Sunoco's line of industrial lubricants.



Above: Suncor participated in 24 gross exploratory wells drilled and completed in western Canada in 1979.

Top right: Steam stimulation is used to recover heavy oil near Fort Kent, Alberta.

Bottom right: Roger Deblois cuts pipe for dike construction at Fort McMurray oil sands plant.



Summary of Accounting Policies

December 31, 1979

The Company's financial statements have been prepared by management in accordance with generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of numerous estimates and approximations which have been made using careful judgement. In management's opinion the financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of Presentation

(a) Pooling of interests

Suncor Inc. is the continuing company arising as a result of the amalgamation described in note 1 to the consolidated financial statements. The amalgamation was a corporate reorganization and has been accounted for in a manner similar to a pooling of interests.

The consolidated financial statements for prior years include the accounts of the predecessor companies and their subsidiaries and have been restated to reflect the effects of amalgamation, including the elimination of intercompany transactions among such predecessor companies.

(b) Principles of consolidation

The financial statements are prepared on a consolidated basis to include the accounts of all subsidiaries.

(c) Elimination of crude oil revenues

All conventional and synthetic crude oil produced by Suncor Inc. is deemed to be consumed by the Company because it is a net purchaser of crude oil. On this basis all revenues from crude oil, including those arising from receipt of world prices for synthetic crude oil, from sales to third parties, and from the oil import compensation programme, are eliminated from revenues and costs and operating expenses in the Con-

solidated Statement of Earnings. Consequently, costs and operating expenses reflect the net costs of generating third party sales of refined products and natural gas.

(d) Joint ventures

A significant part of the Company's oil and gas activities is conducted jointly with others. The accounts reflect the Company's proportionate interest in these activities.

Policies of Application to Specific Segments

At the January 23, 1980 Board of Directors' meeting the directors approved the Company's classes of business. The descriptions of these classes of business or segments are detailed below together with their respective accounting policies.

(a) Exploration, production and resources development

This segment encompasses exploration for and production of crude oil and natural gas in the western provinces and frontier areas, and operation of a natural gas pipeline. In addition, certain coal and uranium activities are being pursued.

The full cost method of accounting is followed. All costs incurred in searching for oil and gas reserves, including leasehold acquisition and retention costs, are capitalized. Proceeds received from disposals of properties are deducted from these costs. Capitalized costs are charged against operations through a provision for depletion, calculated on a unit-of-production basis.

Wellhead equipment, gas plants and handling facilities are primarily written off over the life of estimated reserves, while support and movable equipment is depreciated on a straight line basis over an average of ten years.

Research into heavy oil tertiary recovery processes is expensed as incurred.

(b) Oil sands

This segment encompasses production of synthetic crude oil from bituminous sands mined from the Athabasca oil sands in northeastern Alberta.

Mobile equipment, and mine development expenditures that significantly benefit operations of future years, are capitalized. Other mining equipment and development expenditures are expensed.

Major additions and improvements to plant capacity, productivity or environmental protection are capitalized. Other plant outlays are expensed. The cost of housing is capitalized.

Mine and plant production facilities which were capitalized prior to January 1, 1976 are depreciated over the life of reserves on a unit-of-production basis. Mine and plant production facilities capitalized after January 1, 1976 are depreciated over the lesser of their useful lives or the life of reserves. Depreciation over useful lives is on a straight line basis.

Capitalized plant production facilities and the bucketwheel excavators are primarily depreciated over the life of reserves. Conveyors and mobile equipment are depreciated on average over 3 years and rental housing over 25 years.

Deferred preproduction costs are amortized over the life of reserves on a unit-of-production basis.

Overburden removal costs, including depreciation on overburden removal equipment, are deferred. Annual amortization of these costs is based on the year's production of oil sands, the ratio of total overburden to be removed to total reserves of oil sands to be mined, and the year's removal cost per unit of overburden.

(c) Refining, petrochemicals and marketing

This segment encompasses the manufacture, transportation and marketing of petroleum and petrochemical products, primarily in Ontario and Quebec, and also sales of petrochemical products to the United States and Europe.

Depreciation is on a straight line basis. The refinery and additions thereto are depreciated over an average of 23 years, service stations and related equipment over an average of 15 years, and other facilities and equipment over 4 to 20 years.

Policies of General Application

(a) Transfer prices between segments
Transfers of crude oil, natural gas and refined products between segments are recorded at fair market value.

(b) Maintenance, repairs, shutdown expense and disposals

Normal maintenance and repairs are charged to expense as incurred. The cost of major maintenance shutdowns is estimated and accrued over the period to the next shutdown. Except for oil and gas assets accounted for under the full cost method, costs of assets sold, retired or abandoned and the related amounts of accumulated depreciation are eliminated from the accounts, and resultant gains or losses on disposals are included in earnings.

(c) Pension expense

The Company has a pension plan

providing retirement benefits for its employees and those of certain subsidiaries. Pension expense includes the current pension costs, the amortization of initial past service costs over 25 years, and the amortization of plan improvements over 15 years. It is the Company's policy to fund the total pension expense.

(d) Income taxes

Some costs and revenues may by law be deducted from or added to earnings in the calculation of taxable income in years earlier or later than actually recorded in the Company's Consolidated Statement of Earnings. The income taxes in the earnings statement are based upon the revenues and expenses actually recorded, but differ from taxes actually paid or payable. These differences are shown in the Consolidated Statement of Financial Position as deferred income taxes.

Investment tax credits are reflected as a reduction of income tax expense in the year the eligible expenditures are incurred.

(e) Inventories

Inventories of crude oil and refined products are valued at cost using the first-in, first-out method, which does not exceed net realizable value.

Materials and supplies are valued mainly at the lower of average cost and net realizable value.

(f) Foreign currency translation

The Company applies the temporal method of accounting for the translation of foreign currency amounts into Canadian dollars.

Under this method the Company's current assets and liabilities and long-term debt are translated at year-end rates. Other assets and liabilities are translated at the rate prevailing when they were acquired or incurred.

Unrealized exchange gains and losses on translation of long-term debt are deferred, and amortized over the remaining repayment periods. Other exchange gains and losses are reflected in earnings.

Auditors' Report

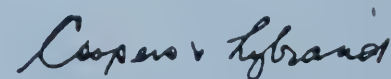
To the shareholders of Suncor Inc.

We have examined the consolidated statement of financial position of Suncor Inc. as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accord-

ance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted ac-

counting principles applied on a basis consistent with that of the preceding year.

A handwritten signature in dark ink, appearing to read "Coopers & Lybrand".

COOPERS & LYBRAND
Chartered Accountants
Toronto, Ontario
January 23, 1980

Consolidated Statement of Earnings

for the year ended December 31, 1979

	1979	1978
	(millions of dollars except per share amounts)	
Revenues		
Gross sales and other operating revenues	\$939.8	\$699.7
Deduct: sales to third parties of crude oil production	209.4	143.0
Sales and other operating revenues	730.4	556.7
Interest income	11.3	5.8
	<u>741.7</u>	<u>562.5</u>
Expenses		
Costs and operating expenses	197.0	224.9
Selling, administrative and general	67.4	59.3
Royalties	97.6	68.9
Taxes other than income taxes	49.0	52.4
Depreciation, depletion and amortization	67.3	58.5
Interest (note 5)	7.5	7.3
	<u>485.8</u>	<u>471.3</u>
Earnings before income taxes and extraordinary gains	<u>255.9</u>	<u>91.2</u>
Income taxes (note 2)	86.1	33.4
Earnings before extraordinary gains	<u>169.8</u>	<u>57.8</u>
Extraordinary gains (note 3)	3.1	3.1
Earnings for the year	<u>\$172.9</u>	<u>\$ 60.9</u>
Earnings per common share		
Earnings before extraordinary gains	\$ 3.24	\$ 1.11
Earnings for the year	<u>\$ 3.30</u>	<u>\$ 1.17</u>

See accompanying summary of accounting policies and notes

Consolidated Statement of Retained Earnings

for the year ended December 31, 1979

	1979	1978
	(millions of dollars)	
Balance — Beginning of year	\$147.6	\$ 86.7
Deduct: Amalgamation expenses net of income taxes (note 1)	1.5	—
Earnings for the year	172.9	60.9
	<u>319.0</u>	<u>147.6</u>
Dividends on preferred shares	0.6	—
Balance — End of year	<u>\$318.4</u>	<u>\$147.6</u>

See accompanying summary of accounting policies and notes

Consolidated Statement of Financial Position

as at December 31, 1979

	1979	1978
	(millions of dollars)	
Assets		
Current assets		
Cash, time deposits and short-term investments	\$ 145.0	\$ 31.9
Accounts receivable (note 4)	155.7	89.1
Inventories (note 6)	123.0	108.1
	<u>423.7</u>	<u>229.1</u>
Long-term receivables	4.5	3.8
Properties, plant and equipment (note 7)	727.6	645.4
Deferred charges (note 8)	99.8	88.4
	<u>\$1,255.6</u>	<u>\$966.7</u>
Liabilities and shareholders' equity		
Current liabilities		
Short-term borrowings	\$ 26.5	\$ 16.3
Accounts payable and accrued liabilities (note 4)	117.7	90.2
Income taxes	33.6	3.8
Taxes other than income taxes	15.5	9.7
Current portion of long-term debt	3.8	2.8
	<u>197.1</u>	<u>122.8</u>
Long-term debt (note 9)	69.7	77.6
Deferred revenues	9.6	3.8
Deferred income taxes	174.4	127.4
Minority interest	7.2	7.6
Shareholders' equity		
Share capital (note 10)	479.2	479.9
Retained earnings	318.4	147.6
	<u>797.6</u>	<u>627.5</u>
	<u>\$1,255.6</u>	<u>\$966.7</u>

See accompanying
summary of accounting
policies and notes

On behalf of the Board
R. A. Hennigar, Director
D. M. McGeer, Director

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1979

	1979	1978
	(millions of dollars)	
Source of funds		
Operations		
Earnings before extraordinary gains	\$169.8	\$ 57.8
Depreciation, depletion and amortization	67.3	58.5
Deferred income taxes	47.0	28.4
Gains on disposals of properties, plant and equipment	(3.2)	(2.5)
Deferred overburden removal outlays (note 8)	(28.5)	(16.2)
	252.4	126.0
Extraordinary reduction in income taxes	3.1	1.3
Disposals of properties, plant and equipment	8.2	12.0
New long-term debt	0.2	1.8
Increase in deferred revenues	5.8	2.4
	269.7	143.5
Use of funds		
Purchases of properties, plant and equipment	132.8	99.9
Outlays on deferred charges other than overburden	5.0	3.7
Increase in long-term receivables	0.7	0.6
Reduction of long-term debt	7.7	19.2
Decrease in minority interest	0.4	0.4
Redemption of preferred shares (note 10)	0.7	—
Amalgamation expenses net of income taxes	1.5	—
Dividends	0.6	—
	149.4	123.8
Increase in working capital	120.3	19.7
Working capital — Beginning of year	106.3	86.6
Working capital — End of year	\$226.6	\$106.3

See accompanying
summary of accounting
policies and notes

Schedule of Segmented Data

	Resources Group				Sunoco Group			
	Exploration, production and resources development		Oil sands		Refining, petrochemicals and marketing		Total	
	1979	1978	1979	1978	1979	1978	1979	1978
	(millions of dollars)							
REVENUES AND EARNINGS								
For the year ended December 31								
Sales and other operating revenues	\$ 40.8	\$ 39.3	\$ 5.9	\$ 0.6	\$683.7	\$516.8	\$ 730.4	\$556.7
Sales to third parties of crude oil production	38.1	34.6	171.3	108.4	—	—	209.4	143.0
Inter-segment revenues	46.4	33.0	166.2	101.1	0.7	0.7	213.3	134.8
Revenues by segment	<u>\$125.3</u>	<u>\$106.9</u>	<u>\$343.4</u>	<u>\$210.1</u>	<u>\$684.4</u>	<u>\$517.5</u>	<u>\$1,153.1</u>	<u>\$834.5</u>
Operating profits by segment	<u>\$ 35.1</u>	<u>\$ 36.8</u>	<u>\$138.5</u>	<u>\$ 37.9</u>	<u>\$ 84.0</u>	<u>\$ 19.2</u>	<u>\$ 257.6</u>	<u>\$ 93.9</u>
Inter-segment profit elimination							1.4	5.7
Interest income							11.3	5.8
Corporate expense							(6.9)	(6.9)
Interest expense							(7.5)	(7.3)
Income taxes							(86.1)	(33.4)
Extraordinary gains							3.1	3.1
Earnings for the year							<u>\$172.9</u>	<u>\$ 60.9</u>
CAPITAL EMPLOYED AND OTHER								
As at December 31								
Total identifiable assets	\$335.1	\$286.2	\$462.4	\$370.6	\$349.5	\$305.2	\$1,147.0	\$962.0
Current identifiable liabilities	(28.1)	(22.8)	(49.9)	(34.2)	(98.4)	(62.9)	(176.4)	(119.9)
Net identifiable assets	<u>\$307.0</u>	<u>\$263.4</u>	<u>\$412.5</u>	<u>\$336.4</u>	<u>\$251.1</u>	<u>\$242.3</u>	<u>970.6</u>	<u>842.1</u>
Net corporate assets							87.9	1.8
Capital employed							<u>\$1,058.5</u>	<u>\$843.9</u>
For the year ended December 31								
Purchases of properties, plant and equipment	\$ 64.4	\$ 61.3	\$ 59.4	\$ 18.5	\$ 9.0	\$ 20.1	\$ 132.8	\$ 99.9
Depreciation and depletion	\$ 21.6	\$ 16.8	\$ 12.0	\$ 10.8	\$ 9.6	\$ 8.9	\$ 43.2	\$ 36.5

See accompanying summary of accounting policies and notes

Notes to the Consolidated Financial Statements

December 31, 1979

1. Amalgamation

On August 22, 1979 Great Canadian Oil Sands Limited ("GCOS") and Sun Oil Company Limited ("Sun") amalgamated to continue as Suncor Inc. A description of the business of GCOS may be found under the oil sands segment accounting policies while Sun's business is described under the other segments. The amalgamation was effected by the following transactions:

- (a) Sun issued 7,719 common shares to Sun Company, Inc. in exchange for 1,650,000 preferred and 27,397,114 common shares of GCOS held by Sun Company, Inc.
- (b) 1,107,145 common shares of GCOS held by shareholders other than Sun were converted into 1,107,145 Preferred Shares Series A of Suncor Inc. (note 10); and 23,716 common shares of Sun held by Sun Company, Inc. were converted into 52,175,200 common shares of Suncor Inc.
- (c) All of the preferred and common shares of GCOS held by Sun were cancelled.

The following table illustrates the breakdown of financial information of the predecessor companies from January 1, 1979 to August 21, 1979 which are included in Suncor Inc.'s earnings.

	GCOS	Sun	Combined
	(Unaudited, millions of dollars)		
Revenues	\$157.4	\$441.5	\$446.6
Extraordinary gain	\$ 3.1	\$ —	\$ 3.1
Earnings	\$ 33.9	\$ 40.4	\$ 74.3

All intercompany transactions are eliminated in the above combination. The amounts eliminated are not significant to Suncor Inc.'s earnings.

2. Income taxes

The provision for income taxes in the Consolidated Statement of Earnings reflects a statement tax rate which is lower than the statutory tax rate. A reconciliation of the two rates is as follows:

	1979	1978
Federal tax rate	46.0%	46.0%
Provincial abatement	(10.0)	(10.0)
Provincial tax rate	11.8	11.8
Statutory tax rate	47.8%	47.8%
Crown royalty disallowance	14.0	31.0
Resource allowance	(12.6)	(20.2)
Depletion allowance	(10.5)	(11.5)
Inventory allowance	(0.5)	(1.7)
Provincial royalty tax credits and rebates	(0.7)	(4.4)
Provincial drilling credits, investment tax credits and other	(3.9)	(4.4)
Statement tax rate	33.6%	36.6%

Deferred income taxes result from timing differences, the sources and the tax effects of which are as follows:

	1979	1978
	(millions of dollars)	
Excess of tax over (under) book expense		
Depreciation	\$33.2	\$11.6
Exploration and development costs	14.1	9.6
Preproduction expense	(0.7)	7.9
Overburden removal	2.7	(0.1)
Other	(2.3)	(0.6)
	\$47.0	\$28.4

3. Extraordinary gains

The 1979 extraordinary gain of \$3.1 million reflects reduced income taxes payable arising from recognition, for book purposes, of investment tax credits for years prior to 1979.

The 1978 extraordinary gains of \$3.1 million are comprised of:

- (a) \$1.8 million gain on disposals of 40 service stations, net of income taxes of \$0.3 million.
- (b) \$1.3 million reduction of income taxes arising from prior years' losses of a subsidiary company.

4. Related party transactions

In transactions with Sun Company, Inc. and its affiliates during 1979, the Company purchased crude oil and raw feedstocks for \$8.5 million (1978—\$72.1 million). In turn the Company sold refined products for \$1.7 million (1978—\$7.5 million).

These transactions were carried out on terms believed by the Company to be no less favourable than those that could have been obtained from unaffiliated persons.

Amounts due to Sun Company, Inc. and its affiliates at December 31, 1979 totalling \$2.1 million (1978 — \$0.2 million) are included in accounts payable and accrued liabilities. Amounts due from Sun Company, Inc. and its affiliates totalling \$0.1 million (1978 — \$0.7 million) are included in accounts receivable.

5. Supplemental earnings statement information

	1979	1978
	(millions of dollars)	
Export sales	\$218.9	\$121.9
Research expense	\$ 4.9	\$ 3.4
Interest expense — short-term	\$ 0.8	\$ 0.7
— long-term	6.7	6.6
	\$ 7.5	\$ 7.3

6. Inventories

	1979	1978
	(millions of dollars)	
Crude oil — conventional	\$ 22.0	\$ 17.9
— synthetic	18.3	20.1
Refined products	55.5	45.5
Materials and supplies	27.2	24.6
	\$123.0	\$108.1

7. Properties, plant and equipment

	Properties plant and equipment, at cost	Accumulated depreciation and depletion	Net	Net
			1979	1978
	(millions of dollars)			
Exploration, production and resources development	\$ 401.1	\$100.0	\$301.1	\$254.4
Oil sands	375.2	96.8	278.4	235.3
Refining, petrochemicals and marketing	238.1	90.0	148.1	155.7
	\$1,014.4	\$286.8	\$727.6	\$645.4

8. Deferred charges

	1979	1978
	(millions of dollars)	
Oil sands preproduction costs	\$48.1	\$50.0
Oil sands deferred overburden removal costs (see below)	40.4	29.2
Foreign exchange loss	1.9	3.1
Other	9.4	6.1
	<u>\$99.8</u>	<u>\$88.4</u>
Oil sands deferred overburden removal costs		
Balance, beginning of year	\$29.2	\$29.7
Outlays during year	28.5	16.2
Depreciation on equipment for year*	2.3	1.6
	60.0	47.5
Amortization during year	(19.6)	(18.3)
Balance, end of year	<u>\$40.4</u>	<u>\$29.2</u>

* Depreciation on overburden removal equipment is not included in the depreciation, depletion and amortization expense of \$67.3 million (1978 — \$58.5 million).

9. Long-term debt

	1979	1978
	(millions of dollars)	
5 ³ / ₄ % Notes, maturing in 1991, repayable at the rate of U.S. \$2,000,000 annually.		
U.S. \$32,000,000 (1978 — U.S. \$34,000,000).	\$37.5	\$40.3
Bank term loan, basically at prime rate of interest plus one-half per cent, maturing in May 1983, prepayable at the Company's option	15.0	15.0
Mortgages on housing, bearing interest at rates between 6 ¹ / ₄ and 11 ³ / ₄ per cent, repayable over the next 24 years	20.9	25.1
Other	0.1	—
	<u>73.5</u>	<u>80.4</u>
Less current portion of long-term debt	<u>3.8</u>	<u>2.8</u>
	<u>\$69.7</u>	<u>\$77.6</u>
Long-term debt matures as follows		
1980	\$ 3.8	
1981	2.9	
1982	2.9	
1983	18.1	
1984	3.2	
Subsequent years	<u>42.6</u>	
	<u>\$73.5</u>	

10. Share capital**Authorized:**

— an unlimited number of preferred shares without nominal or par value, issuable in series, the first being 1,107,145 Preferred Shares Series A. Redemptions to December 31, 1979 have reduced the authorized number of Preferred Shares Series A from 1,107,145 to 1,079,407. Preferred Shares Series A have the following attributes:

\$24 stated capital, \$1.92 cumulative annual dividend, redeemable at \$24, voting, convertible if and when a public distribution of common shares is made.

— an unlimited number of common shares without nominal or par value.

Issued:

	Preferred Shares Series A		Common shares	
	Number	Amount	Number	Amount
		(millions of dollars)		(millions of dollars)
At August 22, 1979, date of amalgamation, (see note 1)	1,107,145	\$26.6	52,175,200	\$453.3
Converted into common shares	(139,846)	(3.3)	69,885	3.3
Redeemed for cash	(27,738)	(0.7)	—	—
Balance as at December 31, 1979	<u>939,561</u>	<u>\$22.6</u>	<u>52,245,085</u>	<u>\$456.6</u>

If and when a public distribution of common shares is made, the Preferred Shares Series A would be convertible into common shares during a 95 day period following such distribution, on the basis that \$24 bears to the price (excluding commissions and discounts) at which the common shares are sold or issued for public distribution.

Prior to October 13, 1979 the Preferred Shares Series A were convertible to common shares on the basis of one common share for two Preferred Shares Series A.

The Preferred Shares Series A are redeemable at the option of the holder for \$24 per share plus accrued and unpaid dividends at any time. The shares are redeemable also at the option of the Company at the same price following the 95 day conversion period.

Persons who held, or claim to have held, approximately 90,000 common shares of Great Canadian Oil Sands Limited at the time of amalgamation have demanded payment of the fair value of their shares in respect of which they claim to have dissented pursuant to the provisions of section 184 of the Canada Business Corporations Act. Suncor Inc. has applied to the court for a determination of the persons entitled to be paid and the amount to be paid in accordance with the Act.

11. Commitments and contingencies

- The Company has undertaken an expansion of its oil sands plant at an estimated cost of \$185 million to add about 2 000 cubic metres to daily production capacity. Related outlays to the end of 1979 were \$29.7 million, and further outlays are expected to take place in stages over the next two years.
- Minimum annual rental charges under leases for service stations, office space and other property and equipment approximate \$2.5 million.
- In March 1979 a suit was filed against the Company and the vendor of certain oil and gas properties which were purchased by the Company in 1973. The plaintiff has alleged that the vendor failed to honour a right of first refusal on the properties before completing certain transactions leading to the sale of the properties to the Company. The claim is for specific performance of the right of first refusal or, in the alternative, \$35.0 million damages. If the plaintiff's suit is successful, indemnity will be claimed against the vendor.

While the result of any litigation necessarily contains an element of uncertainty, the Company's management presently believes that, with respect to the above and other known contingent liabilities, including lawsuits, claims and guarantees, the aggregate amount of any liability and costs which might result would not have a materially adverse effect on the Company's consolidated financial position or operating results.

12. Subsequent event

In view of the recent increases in world oil prices, the federal government is reviewing the Company's entitlement to world oil prices for its synthetic crude oil production. Any significant change from the world price arrangement as currently authorized by the government would have a material impact on the Company's future earnings.

Quarterly Summary (unaudited)

FINANCIAL DATA

	For the quarter ended				Total year 1979	For the quarter ended				Total year 1978
	Mar 31 1979	June 30 1979	Sept 30 1979	Dec 31 1979		Mar 31 1978	June 30 1978	Sept 30 1978	Dec 31 1978	
(dollars in millions except per share amounts)										
Revenues	\$173.9	\$167.0	\$184.4	\$216.4	\$741.7	\$141.3	\$121.4	\$144.2	\$155.6	\$562.5
Operating profits by segment										
Exploration, production and resources development	8.7	8.8	6.1	11.5	35.1	11.1	8.3	7.6	9.8	36.8
Oil sands	11.9	14.6	38.2	73.8	138.5	10.3	11.2	5.5	10.9	37.9
Refining, petrochemicals and marketing	10.2	13.9	25.2	34.7	84.0	6.0	(0.8)	4.1	9.9	19.2
	\$ 30.8	\$ 37.3	\$ 69.5	\$120.0	\$257.6	\$ 27.4	\$ 18.7	\$ 17.2	\$ 30.6	\$ 93.9
Earnings before extra- ordinary gains	18.8	22.3	50.2	78.5	169.8	15.8	10.7	9.8	21.5	57.8
Extraordinary gains	—	—	3.1	—	3.1	1.2	0.8	0.5	0.6	3.1
Earnings for the period	\$ 18.8	\$ 22.3	\$ 53.3	\$ 78.5	\$172.9	\$ 17.0	\$ 11.5	\$ 10.3	\$ 22.1	\$ 60.9
Funds from operations	\$ 39.5	\$ 44.8	\$ 74.1	\$ 94.0	\$252.4	\$ 33.4	\$ 29.7	\$ 22.4	\$ 40.5	\$126.0
Earnings per common share before extraordinary gains	\$ 0.35	\$ 0.43	\$ 0.96	\$ 1.50	\$ 3.24	\$ 0.30	\$ 0.21	\$ 0.19	\$ 0.41	\$ 1.11

OPERATING DATA

Gross production

Conventional crude oil and natural gas liquids (a)	2.6	2.6	2.6	2.9	2.7	2.5	2.2	2.5	2.6	2.5
Synthetic crude oil (a)	7.4	5.0	5.7	8.9	6.8	7.2	8.3	5.8	7.2	7.1
Natural gas sales (b)	2.5	1.9	1.0	1.6	1.8	2.3	1.9	1.3	1.5	1.8
Sales of refined products (a)	12.5	11.2	11.1	12.3	11.8	11.9	10.3	12.0	11.5	11.4

(a) thousands of cubic metres per day

(b) millions of cubic metres per day

Financial Five Year Summary (unaudited)

	1979	1978	1977	1976	1975
	(dollars in millions except for ratios)				
Revenues	<u>\$ 741.7</u>	<u>\$562.5</u>	<u>\$475.8</u>	<u>\$405.5</u>	<u>\$352.9</u>
Revenues by segment					
Exploration, production and resources development	125.3	106.9	92.3	62.8	47.2
Oil sands	343.4	210.1	178.7	158.3	122.9
Refining, petrochemicals and marketing	684.4	517.5	438.5	383.5	337.4
	<u>\$1,153.1</u>	<u>\$834.5</u>	<u>\$709.5</u>	<u>\$604.6</u>	<u>\$507.5</u>
Operating profits by segment					
Exploration, production and resources development	35.1	36.8	31.5	18.4	12.4
Oil sands	138.5	37.9	26.8	24.0	5.9
Refining, petrochemicals and marketing	84.0	19.2	23.6	13.3	18.1
	<u>\$ 257.6</u>	<u>\$ 93.9</u>	<u>\$ 81.9</u>	<u>\$ 55.7</u>	<u>\$ 36.4</u>
Earnings before extraordinary gains	169.8	57.8	36.0	23.1	8.1
Extraordinary gains	3.1	3.1	6.3	2.9	2.6
Earnings for the year	<u>\$ 172.9</u>	<u>\$ 60.9</u>	<u>\$ 42.3</u>	<u>\$ 26.0</u>	<u>\$ 10.7</u>
Funds from operations	<u>\$ 252.4</u>	<u>\$126.0</u>	<u>\$ 94.9</u>	<u>\$ 72.6</u>	<u>\$ 48.6</u>
Purchases of properties, plant and equipment					
Exploration, production and resources development	64.4	61.3	34.9	19.5	49.2
Oil sands	59.4	18.5	25.4	15.1	25.5
Refining, petrochemicals and marketing	9.0	20.1	11.4	20.3	21.5
	<u>\$ 132.8</u>	<u>\$ 99.9</u>	<u>\$ 71.7</u>	<u>\$ 54.9</u>	<u>\$ 96.2</u>
Capital employed					
Long-term debt	69.7	77.6	91.2	88.8	91.5
Deferred revenues, deferred taxes and minority interest	191.2	138.8	107.8	83.6	65.2
Shareholders' equity	797.6	627.5	566.6	524.3	498.3
	<u>\$1,058.5</u>	<u>\$843.9</u>	<u>\$765.6</u>	<u>\$696.7</u>	<u>\$655.0</u>
Number of common shares	52,191,626	52,175,200	52,175,200	52,175,200	52,175,200
Ratios					
Earnings before extraordinary gains per common share	\$3.24	\$1.11	\$0.69	\$0.44	\$0.15
Earnings per common share	\$3.30	\$1.17	\$0.81	\$0.50	\$0.21
Funds from operations per common share	\$4.84	\$2.41	\$1.82	\$1.39	\$0.93
Earnings as a percentage of average shareholders' equity	24.3%	10.2%	7.8%	5.1%	2.2%
Earnings as a percentage of average capital employed	18.2%	7.6%	5.8%	3.9%	1.7%
Earnings as a percentage of revenues	23.3%	10.8%	8.9%	6.4%	3.0%
Long-term debt as a percentage of capital employed	6.6%	9.2%	11.9%	12.7%	14.0%

Operating Five Year Summary (unaudited)

	1979	1978	1977	1976	1975
RESOURCES GROUP					
Gross production					
Conventional crude oil and natural gas liquids (a)	2.7	2.5	2.5	2.5	2.5
Synthetic crude oil (a)	6.8	7.1	7.1	7.6	6.8
	<u>9.5</u>	<u>9.6</u>	<u>9.6</u>	<u>10.1</u>	<u>9.3</u>
Natural gas sales (millions of cubic metres per day)	1.8	1.8	1.9	1.4	1.2
Gross proved reserves*					
Conventional crude oil and natural gas liquids (b)	12	12	15	16	16
Synthetic crude oil (b)	65	67	69	72	75
	<u>77</u>	<u>79</u>	<u>84</u>	<u>88</u>	<u>91</u>
Natural gas (billions of cubic metres)	14	13	16	15	16
Land holdings (millions of hectares)					
Gross	19.7	23.9	26.5	26.7	27.9
Net	5.1	6.2	6.6	6.9	6.8
Net wells completed					
Exploratory — oil	—	1	—	—	—
— gas	4	5	5	1	1
— dry	12	6	9	2	2
Development — oil	39	27	11	1	5
— gas	23	40	36	8	4
— dry	7	7	1	1	2
	<u>85</u>	<u>86</u>	<u>62</u>	<u>13</u>	<u>14</u>
SUNOCO GROUP					
Crude oil supply and refining					
Refined for Suncor account (a)	11.8	10.6	11.9	10.3	10.7
Self-sufficiency ratio	79%	89%	80%	97%	86%
Processed at Suncor refinery (a)	12.2	11.1	12.2	12.3	13.2
Utilization of refining capacity	85%	77%	85%	91%	97%
Sales of refined products (a)					
Gasolines	4.3	4.0	4.0	3.7	4.2
Middle distillates	2.9	2.6	2.5	2.6	2.4
Heavy fuel oil	3.0	3.4	3.4	3.5	4.0
Petrochemicals	1.1	0.8	0.6	0.2	—
Lubes, greases, specialty oils and other	0.5	0.6	0.5	0.5	0.6
	<u>11.8</u>	<u>11.4</u>	<u>11.0</u>	<u>10.5</u>	<u>11.2</u>
Service stations (number at year-end)	950	990	1,040	1,140	1,170
Suncor employees (number at year-end)	4,310	4,130	4,000	3,900	3,990

(a) thousands of cubic metres per day

(b) millions of cubic metres

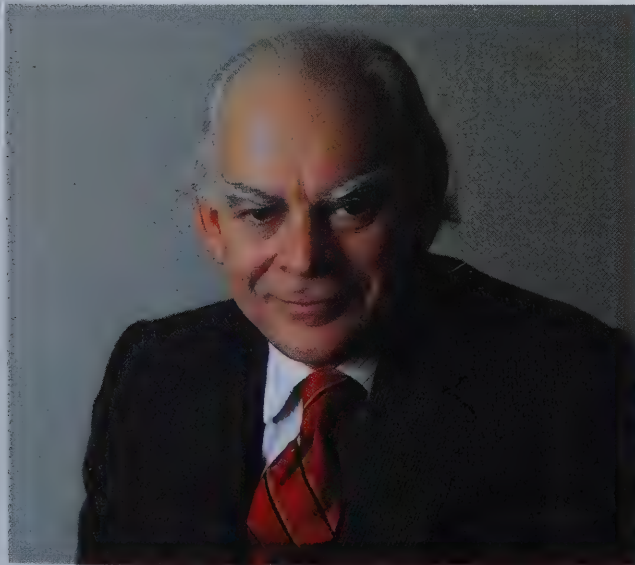
*Reserve estimates for 1979 and 1978 were prepared by independent consultants. Estimates for 1977, 1976 and 1975 were prepared by the Company.

Suncor's Board consists of ten men who have one thing in common: achievement. They provide a wide range of expertise which plays an active part in the management of the Company.

Currently, four directors — Max Clarkson, Newton Hughes, Michael Koerner and John Poole — are independent outside directors, having no other association with the Company or its parent. Two more outside directors will likely be added in 1980.

The Board operates by a detailed, written job description which outlines its goals and duties. This document ensures that ours is a working Board. It clarifies the relationship with the parent company, providing for independence of action well beyond the norm, and it requires intensive use of the business skills of our directors.

The evolution of this job description began with a statement outlining the ingredients for an effective Board and a statement establishing the philosophy by which Suncor's relationship with the parent would be governed so as to comply with the spirit of the Canadian government's "Principles of Canadian Corporate Citizenship". These documents complement the specific, practical guidelines or job descriptions, one for the Board and one for each of its three committees.



Max Clarkson, Dean of the Faculty of Management Studies at the University of Toronto, is Chairman of the Suncor Board's Human Resources and Compensation Committee and a member of the Audit Committee. Mr. Clarkson was head of a small printing company which he helped to build into a multinational corporation prior to entering the academic world in 1975. Management development has been one of his main interests for many years and he has lectured on the subject in Canada, the United States and Europe. He brings to Suncor the perspective and expertise needed to pursue the theme of excellence which is prominent in Suncor's mission statement.

Among the tasks assigned to the Board: to represent and safeguard the interests of all shareholders; to determine and control in broad terms the purposes, goals and activities of Suncor; to elect the president and other officers, monitor the performance of the president and provide for successors; to require detailed operating strategies designed to provide for acceptable financial results; to establish an employee compensation policy and monitor its implementation; to advise the president; to oversee corporate financial operations; to set policies and monitor Suncor's relations with shareholders, governments, employees and others; to be sensitive to situations which could be considered illegal or unethical and take corrective steps; to ensure compliance with Canadian laws and regulations.

The Board's three standing committees are: Audit; Board Policy and Nominating; and Human Resources and Compensation. Each committee is chaired by an outside director. The Audit Committee has a majority of outside directors.

In the following pages, we introduce to you the Suncor Board of Directors.



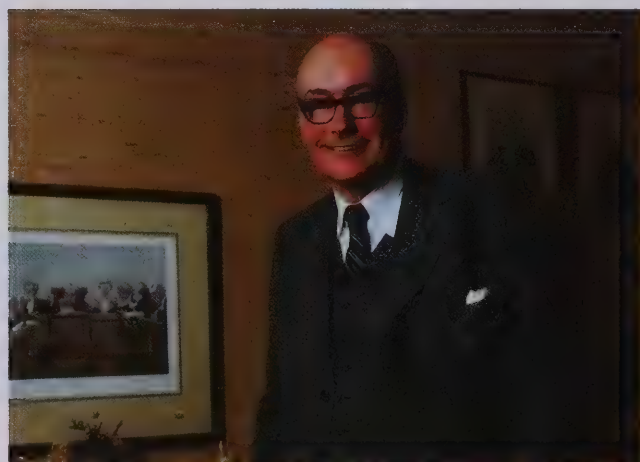
Ross Hennigar, Suncor's President and Chief Executive Officer, was born in Halifax and received his BSc from McGill University. He subsequently graduated from Harvard's advanced management program. His work experience has emphasized employee relations, a definite asset in managing a large, growing company in a quickly changing environment. Mr. Hennigar left Sun's Canadian operations to become manager of employee relations for Sun Oil Company of Pennsylvania before returning to Canada where he became President of Sun Oil Company Limited and Deputy Chairman of the Board for Great Canadian Oil Sands Limited. In the past several years, he has successfully engineered the consolidation of Sun's diversified Canadian interests into a viable and self-directed company and piloted the amalgamation of Sun Oil Company Limited with GCOS to form Suncor. He is a member of the Board Policy Committee.



Gordon Hillhouse is a director and an Executive Vice-President of Sun Company, Inc. of Radnor, Pa. A mechanical engineering graduate, he joined Barnsdall Oil Company in 1949 where he worked in production and engineering. The company merged eventually into Sun. Following senior staff jobs and a period of study in Harvard's advanced management program, he became President of Sun Oil International in 1972, responsible for all Sun's activities outside North America. He was named Executive Vice-President of the parent company in 1974. He is known as a keen student of management techniques and a staunch believer in delegation of responsibility. Mr. Hillhouse is a member of the Suncor Board Policy and Nominating Committee and the Human Resources and Compensation Committee.



Newton Hughes, Chairman of Capwest Capital Services Ltd. and a director of ten other companies, chairs Suncor's Audit Committee and is a member of the Board Policy and Nominating Committee. He is a man well regarded for his financial expertise. He worked with Richardson Securities for 34 years where he rose to be Deputy Managing Director before leaving to spend more time at his other business interests. Formerly a director of GCOS, Mr. Hughes is a knowledgeable participant in Canada's capital and natural resource markets, especially in the west.



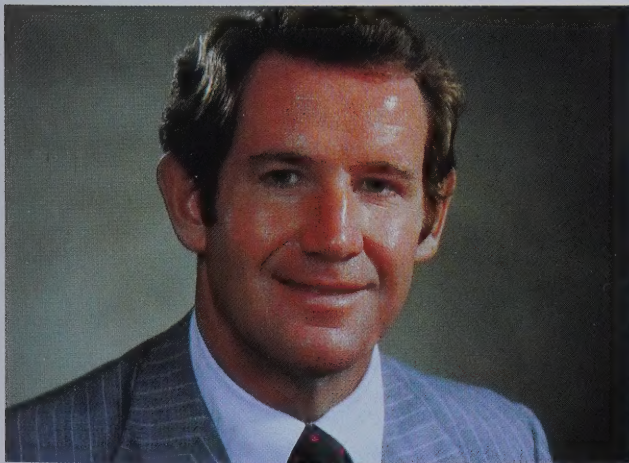
Peter Kingsmill, a partner in Tilley, Carson & Findlay, is a director of Suncor and its legal counsel. He was first appointed a director of GCOS in 1964 and became a director of Sun Oil 10 years later. Mr. Kingsmill is a member of the Suncor Board's Audit Committee where his understanding of corporate securities and tax law is considered valuable. He is a strong proponent of full and frank disclosure and was responsible for drafting the highly detailed information circular which preceded the amalgamation of Sun Oil and GCOS.



Michael Koerner is an entrepreneur. As head of his own company, Canada Overseas Investments Limited, he raises venture capital for new businesses, mainly in manufacturing and processing. Originally educated as a chemical engineer at the Massachusetts Institute of Technology, he later obtained an MBA from Harvard. Mr. Koerner is a member of the Enterprise Development Board in Ottawa and Chairman of its Innovation Assistance Panel. He contributes a thorough understanding of the business environment and investment practices. He is Chairman of the Suncor Board Policy and Nominating Committee and a member of the Audit Committee.



Bob McClements is an Executive Vice-President of Sun Company, Inc. A civil engineer, he was the first plant manager of GCOS in 1965, when oil sands plants were a completely untried idea. The problems were formidable but he presided over a team which solved the production problems one by one, thereby contributing a great deal to the project's eventual success. Subsequently, as President of Sunoco Energy Development Company, in the U.S., he headed up the development team for Sun's first coal mine. As an innovator, he contributes to Suncor's search for new energy resources which crystallized in 1979 with the formation of the Resources Development Division.



Jack Neafsey is Senior Vice-President, Finance, for Sun Company, Inc. A mechanical engineer and MBA graduate from Cornell, he originally worked for Exxon before joining Sunray DX as manager of corporate development. That company merged with Sun a year later and Mr. Neafsey became assistant director of the new company's international marketing department. Subsequently, he worked in petrochemicals, investor relations and treasury prior to his current position. He contributes an international perspective on financial reporting and management as a member of the Audit Committee.



Dudley McGeer, Suncor's Senior Vice-President, is also the company's chief financial officer. A commerce graduate from the University of British Columbia, he has worked for the Sun organization for 27 years, as a landman, manager of the tax department and controller before becoming a director and Vice-President, Administration for both Sun Oil and GCOS. He was the logical man to implement the amalgamation of these two entities. Mr. McGeer has since been instrumental in the reorganization and expansion of the Company to fulfill a larger role in the Canadian energy industry. He is a member of the Board Policy and Nominating Committee.



John Poole is a director of the Toronto-Dominion Bank, Capital Cable TV Ltd. and a governor of The Banff Centre. He and his brother headed Poole Construction Limited from 1948 to 1977, when it was sold to senior management. During that time it became one of the foremost general contractors in Canada, erecting major buildings in Canada and the U.S., entire townsites, airports, highways and industrial plants, and pioneering Arctic construction. Mr. Poole also helped to found Oxford Development Group Ltd. — one of Canada's leading commercial developers — 20 years ago. He is a member of Suncor's Audit Committee and Human Resources and Compensation Committee. He is known as a strong proponent for the use of Canadian technical expertise to develop Canadian resources.

Glossary of Terms

Bitumen: extremely tarry form of oil that coats individual particles of sand in ore body; extracted from ore and upgraded (freed of impurities) to the form of synthetic crude oil.

Coke: by-product of heating bitumen to 500 degrees Celsius; a fuel used in the power plant.

Conventional crude oil: oil and natural gas liquids, including condensate, produced at the wellhead or extracted on surface by ordinary production methods.

Downstream: manufactures, transports and markets refined products from crude oil.

Drillship: a ship which has a hull fitted with a drilling rig capable of drilling in deep water. May be self-propelled. Some carry all supplies and equipment needed to drill and complete a well.

Electrostatic precipitators (ESPs): electrically-charged screens that attract and remove particulates from emissions.

Farmout: an agreement whereby the owner of a lease permits another operator to earn an interest in the lease by carrying out certain work. From the outside operator's point of view, this same agreement is a farmin.

Gross production/reserves: Suncor's interest before deducting Crown royalties, freehold and overriding royalty interests and provincial mineral taxes on production.

Gross wells/land holdings: the total in which Suncor has an interest.

Heavy oil: crude oil which is more viscous, or thicker, than normal crudes and therefore does not flow as freely.

Hydrocarbons: organic chemical compounds of hydrogen and carbon atoms which form the basis of all petroleum products. May exist as gases, liquids or solids.

Natural gas liquids: hydrocarbons found in natural gas which may be extracted or isolated. Also known as liquified petroleum gas.

Net production/reserves: Suncor's working interest after deducting Crown royalties and freehold and overriding royalty interests.

Net wells/land holdings: Suncor's interest after deducting interests of partners.

Ore body: quantity of oil sand capable of being economically extracted and converted to synthetic crude oil on the lease area.

Overburden: material overlying oil sand which must be removed before sand can be mined; consists of muskeg (organic soil), glacial deposits and sand.

Particulate emissions: small pieces of solid material such as fly ash, carbon or dust suspended in gaseous emissions; largely removed by ESPs.

Proved reserves: hydrocarbons which have been discovered and determined to be economically recoverable but are still in the ground.

Reservoir: a body of porous rock containing an accumulation of water, crude oil or natural gas.

Restricted choke flow: wellhead valves are closed down to slow production from the well.

Royalty: a percentage of production which an oil company pays to the owner of the mineral rights. Owner may be provincial or federal governments or a freehold or lease owner.

Seismic: a geophysical technique which helps to determine the oil and gas potential of an area.

Sour gas: natural gas containing hydrogen sulphide.

Spud: to start drilling a well.

Synthetic crude: the blend of desulphurized naphtha, kerosene and gas oil that is made from the hydrocarbons resulting from the delayed coking of bitumen.

Tailings: mixture of sand, water and clay remaining after bitumen has been removed from the ore; stored in a diked-in pond.

Thermal cracking: refining process which uses heat and pressure to break the large hydrocarbon molecules found in bitumen into smaller hydrocarbon molecules and coke.

Upstream: explores for, develops and produces crude oil and natural gas; develops and produces non-conventional heavy oils and synthetic crude oil from the oil sands; and pursues coal, uranium and mineral developments.

Wells:

development: a well drilled with the expectation of producing from known-productive oil or gas reservoir.

exploratory: a well drilled in unproven or semi-proven territory to find commercial deposits of crude oil or natural gas in a new reservoir.

Metric conversion guide

Crude oil, refined products, etc.	1 m ³ (cubic metre) = approx. 6.29 barrels
Natural gas	1 m ³ (cubic metre) = approx. 35.49 cubic feet
Land holdings	1 hectare = approx. 2.47 acres

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Sunoco Group

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Resources Group

Exploration, Production
& Resources Development Divisions

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P.O. Box 38

Calgary, Alberta T2P 2V5

Telephone (403) 269-8100

Resources Group

Oil Sands Division

10123 - 99th Street

Edmonton, Alberta T5J 3H9

Telephone (403) 426-7440

SUBSIDIARY COMPANIES

Albersun Pipeline Ltd.

Calgary, Alberta

Natural gas pipeline operator

Athabasca Realty Company Limited

Fort McMurray and Edmonton, Alberta

Employee housing

Baron Petroleums Inc.

Toronto, Ontario

Retail gasoline distributor

Gow Fuels Inc.

Hull, Quebec

Heating oil and gasoline distributor

Maywelle Properties Ltd.

Toronto, Ontario

Real estate developer

Quimet-Gobeille Inc.

Montreal, Quebec

Heating oil and gasoline distributor

SMS Petroleums Ltd.

Toronto, Ontario

Retail gasoline distributor

Sun-Canadian Pipe Line Company
Limited

Waterdown, Ontario

*Petroleum products pipeline operator
in southern Ontario (55% owned)*

Suncor Supply Limited

Fort McMurray and Edmonton, Alberta

Provision of materials and supplies

Sun Explorations of Quebec Ltd.

Calgary, Alberta

Exploration in Quebec

Sunoco Home Comfort Inc.

Toronto, Ontario

*Heating oil and gasoline distributor
with various divisions in Ontario*

Sunoco Inc.

(including Sunchem division)

Toronto, Ontario

*Manufacturer/marketer of petroleum
and petrochemical products*

Chemsun Inc.

Toronto, Ontario

Marketer of petrochemical products

DIRECTORS

Max B. E. Clarkson, Toronto

Dean & Professor of Management

Faculty of Management Studies

University of Toronto

Ross A. Hennigar, Toronto

Gordon E. Hillhouse, Radnor, Pa.

Executive Vice-President

Sun Company, Inc.

F. Newton Hughes, Edmonton

Chairman of the Board

Capwest Capital Services Ltd.

Ardagh S. Kingsmill, Q.C., Toronto

Partner, Tilley, Carson & Findlay

Michael M. Koerner, Toronto

President, Canada Overseas

Investments Limited

Robert McClements, Jr., Radnor, Pa.

Executive Vice-President

Sun Company, Inc.

Dudley M. McGeer, Toronto

John P. Neafsey, Radnor, Pa.

Senior Vice-President, Finance

Sun Company, Inc.

John E. Poole, Edmonton

Company Director

PRINCIPAL OFFICERS

R. A. Hennigar, President and Chief
Executive Officer

S. A. Cowtan, Executive
Vice-President,
Sunoco Group

W. R. Loar, Executive Vice-President,
Resources Group

D. M. McGeer, Senior Vice-President,
Administration and Chief Financial
Officer

F. A. Bain, Vice-President, Technology

C. K. Boland, Vice-President, Human
Resources and Corporate Affairs

G. H. Brereton, Vice-President,
Refining, Sunoco Group

J. S. Camp, Vice-President, Oil Sands
Division, Resources Group

H. B. Maxwell, Vice-President,
Government Affairs

W. L. Oliver, Vice-President,
Administration, Resources Group

D. A. Smith, Vice-President,
Exploration Division, Resources Group

W. N. Turner, Vice-President,
Production Division, Resources Group

P. M. Bradbury, Controller

A. S. Kingsmill, Q.C., Secretary

A. A. L. Wright, Treasurer and Assistant
Secretary

General Counsel

Tilley, Carson & Findlay

44 King Street West

Toronto, Ontario

M5H 1G4

Majority Shareholder

Sun Company, Inc.

Radnor, Pennsylvania

(owning 99.87% of common shares)

Transfer Agent and Registrar

The Canada Trust Company

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800 Dorchester Blvd. W., Montreal,

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